Production increased 27% year on year with higher cash generation; debt reduction ongoing with net debt:EBITDA ratio* at 1.8x
Results for the six months ended 30 June 2019

5 September 2019

Unless otherwise stated, all figures are on a Business performance basis and are in US Dollars.
Comparative figures for the income statement relate to the period ended 30 June 2018 and the Balance Sheet as at 31 December 2018.

Highlights and outlook

- Group net production up 27.0%, averaging 68,548 Boepd in the six months to end June 2019; full year 2019 guidance of 63,000 Boepd to 70,000 Boepd unchanged
  - Improved production efficiency at Kraken in the second quarter resulted in average gross production of 32,776 Bopd in the first half of 2019. Full year guidance of 30,000 Bopd to 35,000 Bopd remains unchanged. Worcester two-well drilling programme planned for 2020 as the first Western Flank development
  - Magnus performance in line with expectations. Planned maintenance shutdown completed in the period. Two-well drilling programme to commence in the fourth quarter
  - PM8/Seligi performance above expectations reflecting the ongoing successful idle well restoration programme and high production efficiency. Two-well drilling programme commenced in July
- Increased revenue of $858.2 million (2018: $548.3 million) and EBITDA of $525.9 million (2018: $311.9 million) driven by higher production volumes and realised prices, including the impact of the Group's hedge programme
- Operating expenditure increased to $248.4 million (2018: $220.6 million) with unit operating costs reduced to $20.1/boe (2018: $22.6/boe), reflecting the acquisition of additional interest in Magnus
- Material increase in cash generated from operations at $426.2 million (2018: $318.3 million); cash capital expenditure of $124.6 million (2018: $125.8 million), with guidance unchanged
  - Free cash flow** generation of $138.3 million (2018: $53.6 million) has enabled continuing debt reduction

End June net debt reduced by $136.6 million from year end; net debt:EBITDA ratio* of 1.8x

- At 30 June 2019, net debt was reduced to $1,637.9 million (end 2018: $1,774.5 million) with cash and available bank facilities amounting to $248.5 million (end 2018: $309.0 million)
  - At the end of July, the Group's credit facility had reduced to $615.0 million following the early repayment of $65.0 million of the scheduled amortisation, with $55.0 million repaid in June and $10.0 million repaid in July. The remaining $35.0 million of the scheduled amortisation will be paid by 1 October
  - Net debt:EBITDA ratio* at the half year was 1.8x (end 2018: 2.5x), ahead of target to be below 2x by the end of 2019

* based on last twelve months EBITDA to end June 2019 and net debt at 30 June 2019

** Free cash flow: net change in cash and cash equivalents less net (repayments)/proceeds from loan facilities

2019 cash flow supported by oil price hedges

- For full year 2019, the Group's hedge programme covers c.12.5 MMbbls. For the second half of 2019, the Group has c.4.6 MMbbls of oil hedges in place. Approximately 3.9 MMbbls are hedged at an average floor price of c.$66/bbl, with a further c.0.7 MMbbls hedged with an average floor price of c.$56/bbl in accordance with the Oz Management facility agreement

Board change

- EnQuest has appointed Martin Houston as Chairman of the Group with effect from 1 October 2019, replacing Jock Lennox who will step down from the Board on 30 September 2019 (See separate announcement)

EnQuest Chief Executive, Amjad Bseisu, said:

"The Group has delivered a strong performance in the first half of 2019. Production was towards the top end of our full year guidance range and we continue to control our operating expenditures, with unit opex of $20/boe in the period.

“We have generated strong cash flows in the period and significantly reduced our debt, with our net debt:EBITDA ratio at 1.8x, ahead of our target to be below 2x by the end of 2019.

“We remain confident in achieving our 2019 production guidance of 63,000 to 70,000 Boepd. Our two pipeline projects have been completed ahead of schedule and budget and our annual maintenance programme is expected to be concluded around the end of the third quarter. Drilling is underway in Malaysia with our two-well campaign and drilling at Magnus is due to start in the fourth quarter.

“The Worcester development at Kraken, planned for 2020, will utilise our existing infrastructure and is the first step in developing the material resource present in the Western Flank. We continue to assess options to develop the significant potential within our reserves and resources across our portfolio, particularly at Kraken, Magnus and PM8/Seligi.”

Production and financial information

	H1 2019	H1 2018	Change %
Production (Boepd)	68,548	53,990	27.0
Revenue and other operating income ($m)*	858.2	548.3	56.5
Realised oil price ($/bbl)*	66.1	59.5	11.1
Average unit operating expenditure ($/Boe)	20.1	22.6	(11.1)
Gross profit ($m)	269.9	100.8	167.8
Profit before tax & net finance costs ($m)	264.5	105.2	151.4
EBITDA ($m)**	525.9	311.9	68.6
Statutory reported profit after tax ($m)	44.3	43.3	2.3
Statutory reported basic earnings per share (cents)***	2.7	3.3	(18.2)
Cash generated from operations ($m)	426.2	318.3	33.9
Cash capex ($m)	124.6	125.8	(1.0)
	End June 2019	**End 2018**	
Net (debt)/cash ($m)****	(1,637.9)	(1,774.5)	(7.7)

* Including gains of $7.6 million (2018: loss of $77.3 million) associated with EnQuest’s oil price hedges. ** EBITDA is calculated on a Business performance basis. It is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation and the realised gain/loss on foreign currency derivatives related to capital expenditure. *** 2018 restated to reflect the impact of the October 2018 rights issue.**** Net (debt)/cash represents cash and cash equivalents less borrowings, stated excluding accrued interest and the net-off of unamortised fees and IFRS 9 Financial Instruments adjustments

Summary financial review of H1 2019

Unless otherwise stated, all figures are on a Business performance basis and are in US Dollars.
Comparative figures for the income statement relate to the period ended 30 June 2018 and the Balance Sheet as at 31 December 2018.

Revenue was $858.2 million for the six months ended 30 June 2019 compared with $548.3 million for the same period in 2018. This increase was driven by material growth in the Group’s production primarily reflecting the contribution from Magnus, including the impact of increased gas and condensate sales. Group revenue is predominantly derived from crude oil sales and for the six months ended 30 June 2019, crude oil sales totalled $761.9 million compared with $608.9 million for the comparative period in 2018. Revenue from the sale of gas and condensate in the period was $79.9 million (2018: $10.7 million) reflecting additional gas sales, including purchased gas not required for injection activities, at Magnus.

The commodity hedge programme resulted in realised gains of $7.6 million in the first half of 2019 (2018: realised loss of $77.3 million). Consequently, the Group’s blended average realised oil price was $66.1/bbl for the six months ended 30 June 2019, compared to $59.5/bbl received during the first half of 2018. Excluding the impact of hedging, the average realised oil price was $65.4/bbl in the first half of 2019, compared to $68.1/bbl received during the first half of 2018.

Cost of sales were $588.3 million for the six months ended 30 June 2019 compared with $447.5 million for the same period in 2018. Operating costs increased by $27.8 million to $248.4 million, primarily reflecting the acquisition of the additional equity interest in Magnus. The Group’s average unit operating cost has decreased by 11.1% to $20.1/Boe (2018: $22.6/Boe). Other costs increased by $113.0 million to $339.9 million (2018: $226.9 million) reflecting higher production driven depletion charges, a reduction in the Group’s net underlift position and higher purchased gas costs. Magnus third-party gas purchases not required for injection activities are now pass through costs having previously been recognised in operating expense.

EBITDA for the six months ended 30 June 2019 increased significantly to $525.9 million compared with $311.9 million for the same period in 2018. This was driven by higher revenue partially offset by higher cost of sales.

The tax charge for the six months ended 30 June 2019 was $36.2 million (2018: $23.0 million tax credit).

The Group's reported cash generated from operations for the six months ended 30 June 2019 was $426.2 million (2018: $318.3 million) driven by higher production and realised prices.

Remeasurement and exceptional items were a net loss of $120.0 million before tax for the six months ended 30 June 2019 (2018: gain of $34.5 million). Revenue included unrealised losses of $42.9 million in respect of the mark to market movement on the Group's commodity contracts from 31 December 2018 (2018: unrealised gains of $2.5 million). Other remeasurement and exceptional items in the first half of 2019 also include a charge to the statement of comprehensive income as a result of an increase in the fair value relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $26.9 million, which reflects the Group's expectations of continued strong performance at Magnus, $28.1 million unwinding of discount on the end 2018 contingent consideration balance and the provision for settlement of the historical KUFPEC claim of $15.6 million.

EnQuest's net debt decreased by $136.6 million from $1,774.5 million at the end of 2018 to $1,637.9 million at 30 June 2019. Net debt at 30 June 2019 includes $132.5 million of inception to date interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('PIK'), compared to $132.0 million at 31 December 2018.

UK corporate tax losses and allowances at 30 June 2019 decreased to $3,090.4 million (2018: $3,225.3 million).

Operating review

Production details

Net daily average production on a working interest basis	H1 2019	H1 2018
	(Boepd)	(Boepd)
Northern North Sea	30,215	18,002
Central North Sea	6,627	6,108
Kraken	23,107	21,655
Total UKCS	**59,949**	**45,765**
Total Malaysia	**8,599**	**8,225**
Total EnQuest	**68,548**	**53,990**

Northern North Sea operations

Average production in the six months to end June 2019 of 30,215 Boepd was 67.8% higher than the same period in 2018, primarily driven by the contribution from additional equity in Magnus.

At Magnus, production performance remained in line with expectations with production efficiency of around 80%, including the impact of the planned three-week shutdown in May to undertake safety-critical maintenance and execute the Dunlin bypass pipeline project tie-in works. The Group's revised reservoir management strategy requires less gas injection, leading to lower operating expenditures as the cost of gas purchased from third parties under a long term contract is now recognised in other cost of sales. The Group remains on-track to commence the planned two-well drilling programme in the fourth quarter and a number of economic, drillable targets have been identified to start to develop the Group's estimated 50 MMboe of 2C resources at Magnus. With material reserves and resources, Magnus provides the opportunity for long-term, low-cost reserves and production increases.

Production and water injection efficiency above 90% in the period resulted in a good performance at Thistle. Planned well abandonments continue to be successfully executed in line with the Group's asset life extension strategy. Strong operational execution and cost control has allowed the Group to increase the 2019 abandonment project scope from five to nine wells while expecting to remain within the original budget.

At the Dons fields, production was in line with the Group's expectations. Good production and reservoir performance was offset by lower than expected water injection efficiency in the first quarter reflecting water injection pump failures. In June, the Dunlin bypass pipeline project was successfully completed 18 days ahead of schedule, with final commissioning work undertaken during the Dons planned annual maintenance shutdown. Subsequently, Thistle production was transferred to the new export route without incurring any production downtime.

Single compressor operations and reliability issues in the first quarter of 2019 impacted production in the period at Heather, although well intervention and production optimisation work at H67 and H56 are expected to improve performance in the second half of the year. The first phase of the Group's 2019 well abandonment programme was successfully completed below budget, with preliminary abandonment work on a further 11 wells to be conducted in the second half of the year ahead of the 2020 programme. The three-week planned maintenance shutdown was completed in August.

EnQuest has continued to achieve high plant availability and deliver safe and stable operations at the Sullom Voe Terminal. In July, the Group announced essential organisational changes to ensure the terminal remains competitive for existing and future business, to deliver the required level of service to its customers, to help Maximise Economic Recovery in the UKCS and provide long term employment opportunities.

Central North Sea operations

Average production in the six months to end June 2019 of 6,627 Boepd was 8.5% higher than the same period in 2018. Production efficiency at Alma/Galia has been over 95% in 2019 following the replacement of three Electric Submersible Pumps in 2018, although the reservoir continues to decline. The focus remains on production optimisation, cost reduction and the preparation of detailed decommissioning plans.

At Scolty/Crathes, production was stable prior to the third quarter shutdown for planned maintenance and connection of the replacement pipeline. The pipeline project was completed ahead of budget and schedule. Production began in early September and is expected to increase significantly compared with the field's pre-shutdown performance.

High levels of production and water injection efficiency in the Greater Kittiwake Area have delivered a strong production performance in the period. The short planned shutdown was completed in July in line with expectations. Output from Alba has been in line with the Group's expectations.

Kraken

Average gross production in the six months to end June 2019 of 32,776 Bopd was in line with guidance. Production efficiency was improved following the resumption of a two-train operation in mid-March, averaging around 80% in the second quarter of 2019, up materially on the first quarter of the year (c.55%). EnQuest has been working closely with the FPSO operator, Bumi Armada, to improve production uptime. Notable successes have been in the power systems, including greater engine stability and power pump performance, and more effective offshore spares management and FPSO maintenance processes. Completion of the DC4 drilling programme in March marked the conclusion of the original Kraken field development plan. All three wells continue to perform ahead of expectations.

Overall subsurface and wells performance has remained strong. Stable water cut levels and the optimisation of production through improved injector-producer well management has offset the impact of the increase in reservoir voidage as a result of low water injection efficiency in the period, which reflected additional cleaning requirements in the seawater treatment unit.

In July and August, pipework repairs on the FPSO required short unplanned production shutdowns. Production efficiency is returning to a similar level to that delivered in the second quarter of 2019. The Group continues to review the requirements for a planned shutdown in September, with certain work scopes having been opportunistically executed during July.

Strong production efficiency performance remains the Group's operational priority and EnQuest continues to expect Kraken to deliver average production in line with guidance of between 30,000 Bopd and 35,000 Bopd (gross) in 2019.

Since first production in June 2017, more than 21 million barrels of oil have now been produced and 42 cargoes offloaded from the FPSO, with 15 of these cargoes offloaded in 2019. Cargo pricing has seen premiums to Brent and continues to be robust.

The Western Flank Area provides a near-field, economic, development opportunity with around 100 MMbbls of STOIIP. Initial Worcester targets have been high-graded, with development drilling of a producer-injector pair through spare capacity in the existing DC2 sub-sea infrastructure planned for 2020. Pembroke development options continue to be assessed.

Malaysian operations

Average production in Malaysia in the six months to end June 2019 of 8,599 Boepd was 4.5% higher than the same period in 2018.

Production has increased from PM8/Seligi as a result of high production efficiency of over 90% and better than expected performance from the Group's idle well restoration programme, which commenced earlier than planned and has seen ten wells restored to production. The Group's 2019 two-well drilling programme commenced in July with first oil expected by the end of the third quarter as planned, while the planned asset rejuvenation activity is progressing as scheduled. At the end of 2018, the Group had c.20 MMboe of 2P reserves and c.68 MMboe of 2C resources. A large number of low-cost drilling and workover targets have been identified and are being assessed.

Liquidity and net debt

At the end of June 2019, net debt was $1,637.9 million, down $136.6 million from $1,774.5 million at 31 December 2018 reflecting strong operational performance and a higher realised oil price. Total cash and available facilities were $248.5

million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $79.1 million.

In June, the Group made an early voluntary repayment of $55.0 million of the scheduled October amortisation, with a further $10.0 million repayment in July which has reduced the Group's credit facility to $615.0 million. The remaining $35.0 million will be repaid by 1 October 2019.

By the end of June, c.7.9 MMbbls of oil hedges had been settled. Approximately 7.1 MMbbls had an average floor price of c.$67/bbl, while c.0.8 MMbbls associated with the Oz Management facility had an average floor price of c.$56/bbl. For the remaining six months of 2019, EnQuest has c.4.6 MMbbls of oil hedges in place. Approximately 3.9 MMbbls are hedged at an average floor price of c.$66/bbl, with a further c.0.7 MMbbls hedged with an average floor price of c.$56/bbl in accordance with the Oz Management facility agreement.

2019 outlook reaffirmed

Group production performance in the period was ahead of the mid-point of guidance of 68,548 Boepd. With a number of planned maintenance shutdowns in the second half of 2019, the Group continues to expect 2019 net production to grow by around 20% to between 63,000 and 70,000 Boepd.

Operating expenditure is now expected to be around $550 million, lower than the $600 million originally guided primarily as a result of the revised reservoir management strategy at Magnus.

Expectations for 2019 capital expenditure remain around $275 million, with the programme weighted towards the second half of the year. The two-well drilling programme at PM8/Seligi commenced in July with the Magnus two-well campaign expected to commence in the fourth quarter.

The Group continues to prioritise debt repayment with an ongoing focus on cost control and capital discipline. Through the second half of 2019, the Group expects overall net debt to EBITDA to continue to reduce. In future, EnQuest intends to operate between 1x and 2x, targeting the lower end of the range.

Appointment of external auditors

In accordance with the Group's policy, a formal audit tender process was conducted resulting in EnQuest appointing Deloitte LLP ('Deloitte') as the Group's external auditors of the Company's financial statements beginning 1 January 2020. Ernst & Young LLP will continue to audit the Group's financial statements for the year ended 31 December 2019.

- Ends -

For further information please contact:

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Presentation to Analysts and Investors
A presentation to analysts and investors will be held at 09:30 today – London time. The presentation and Q&A will also 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 09:30 on the following numbers:

Conference call details:

UK: +44 (0) 844 571 8892 or +44 (0) 800 376 7922

International: +44 (0) 207 192 8000

Confirmation Code: EnQuest

Notes to editors

This announcement has been determined to contain inside information.
Identity of the person making this notification: Stefan Ricketts, Company Secretary

ENQUEST

EnQuest is 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. Its UK operated assets include Thistle/Deveron, Heather/Broom, the Dons area, Magnus, the Greater Kittiwake Area, Scolty/Crathes, Alma/Galia, Kraken and the Sullom Voe Terminal; EnQuest also has an interest in the non-operated Alba oil field. At the end of June 2019, EnQuest had interests in 17 UK production licences and was the operator of 15 of these licences. EnQuest's interests in Malaysia include the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract, both of which the Group operates.

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

FINANCIAL REVIEW

Financial Overview

Unless otherwise stated, all figures are on a Business performance basis and are in US Dollars.
Comparative figures for the Statement of Comprehensive Income relate to the period ended 30 June 2018 and the Balance Sheet as at 31 December 2018.

Production on a working interest basis increased by 27.0% to 68,548 Boepd, compared to 53,990 Boepd in the first half of 2018.

Revenue for the six months ended 30 June 2019 was $858.2 million, 56.5% higher than the comparative six month period (2018: $548.3 million).

The Group's operating expenditures of $248.4 million were 12.6% higher than the comparative period (2018: $220.6 million) reflecting the acquisition of the additional equity interest in Magnus. Unit operating costs decreased by 11.1% to $20.1/Boe (2018: $22.6/Boe).

EBITDA for the six months ended 30 June 2019 was $525.9 million, up 68.6% than the comparative period (2018: $311.9 million).

	Business performance	
	H1 2019 $ million	H1 2018 $ million
Profit from operations before tax and finance income/(costs)	**264.5**	105.2
Depletion and depreciation	**255.4**	219.3
Inventory write-down	**5.7**	-
Net foreign exchange (gains)/losses	**0.3**	(12.6)
EBITDA	**525.9**	311.9

EnQuest's net debt decreased by $136.6 million from $1,774.5 million at the end of 2018 to $1,637.9 million at 30 June 2019. Net debt at 30 June 2019 includes $132.5 million of inception to date interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('PIK'), compared to $132.0 million at 31 December 2018. Excluding the PIK capitalised in 2019, net debt reduced by $137.1 million.

	Net debt/(cash)	
	30 June 2019 $ million	31 December 2018 $ million
Bonds[(i)]	**964.1**	965.1
Multi-currency revolving credit facility[(ii)] ('RCF')	**640.1**	799.4
Oz Management facility[(iii)]	**165.0**	178.5
Tanjong Baram Project Finance Facility	**31.7**	31.7
Mercuria Prepayment Facility	**-**	22.2
SVT Working Capital Facility	**17.1**	15.7
Other loans	**-**	2.5
Cash and cash equivalents	**(180.1)**	(240.6)
Net debt	**1,637.9**	1,774.5

(i) Stated excluding accrued interest, accounting adjustment on adoption of IFRS 9 Financial Instruments and the net-off of unamortised fees. Includes $117.4 million of PIK (2018: $117.5 million)
(ii) Stated excluding accrued interest. Includes $15.1 million of facility PIK (2018: $14.4 million)
(iii) Stated excluding accrued interest and the net-off of unamortised fees. Includes $7.4 million of capitalised interest (2018: $3.5 million)

Having repaid $70.0 million of the 2019 RCF amortisation in 2018, during the six months ended 30 June 2019 the Group repaid a further $160.0 million. An additional voluntary prepayment of $10.0 million was made during July 2019. The remaining $35.0 million of the scheduled amortisation reduction under the facility is due in October.

UK corporate tax losses and allowances at 30 June 2019 decreased to $3,090.4 million (2018: $3,225.3 million). In the current environment, no material corporation tax or supplementary corporation tax 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

Production and revenue
Production on a working interest basis increased by 27.0% to 68,548 Boepd, compared to 53,990 Boepd in the first half of 2018. This increase primarily reflects the impact of the Group's acquisition of additional equity interest in Magnus.

On average, market prices for crude oil in the first half of 2019 were lower than in the same period in 2018. The Group's blended average realised oil price excluding the impacts of hedging was $65.4/bbl for the six months ended 30 June 2019, 4.0% lower than the comparative period (2018: $68.1/bbl). Revenue is predominantly derived from crude oil sales, which for the six months ended 30 June 2019 totalled $761.9 million, 25.1% higher than the comparative period (2018: $608.9 million) reflecting higher production. Revenue from the sale of condensate and gas in the period was $79.9 million (2018: $10.7 million) driven by additional gas sales, including purchased gas not required for injection activities, at Magnus. Tariff and other income generated $8.9 million (2018: $6.0 million). The Group's commodity hedges and other oil derivatives contributed $7.6 million of realised gains (2018: losses of $77.3 million), including a gain of $4.7 million of non-cash amortisation of option premiums (2018: loss of $16.0 million).

Cost of sales

	Business performance	
	H1 2019 $ million	H1 2018 $ million
Production costs	**210.2**	181.4
Tariff and transportation expenses	**39.2**	39.2
Realised loss/(gain) on FX derivatives related to operating costs	**(1.0)**	-
Operating costs	**248.4**	220.6
Change in lifting position and inventory	**29.4**	(3.3)
Depletion of oil and gas assets	**250.4**	216.5
Other cost of sales	**60.1**	13.7
Cost of sales	**588.3**	447.5
	$/Boe	$/Boe
Operating cost per barrel		
-Production costs	**16.9**	18.6
-Tariff and transportation expenses	**3.2**	4.0
	20.1	22.6

Cost of sales were $588.3 million for the six months ended 30 June 2019, 31.5% higher than the comparative period (2018: $447.5 million). Operating costs increased by $27.8 million, reflecting the acquisition of the additional equity interest in Magnus. The Group's average unit operating cost has decreased by 11.1% to $20.1/Boe.

Change in lifting position and inventory was a charge of $29.4 million for the six months ended 30 June 2019 (2018: gain of $3.3 million), mainly due to the reduction in the Group's net underlift position.

Depletion expense of $250.4 million was 15.7% higher than the comparative period (2018: $216.5 million), primarily reflecting the contribution to production from Magnus in 2019.

Other cost of sales of $60.1 million was higher than the comparative period (2018: $13.7 million) and primarily reflects the cost of additional Magnus-related third-party gas purchases not required for injection activities.

General and administrative expenses
General and administrative expenses decreased to $5.1 million for the six months ended 30 June 2019 (2018: $7.0 million), mainly reflecting the Group's personnel and property costs.

Other income and expenses
Net other expenses of $0.3 million (2018: net income of $11.4 million) is primarily comprised of net foreign exchange gains, which relate to the revaluation of Sterling denominated amounts in the balance sheet.

Finance costs and income
Finance costs of $106.8 million were 12.5% lower than the comparative period (2018: $122.0 million). The charges include $69.7 million of interest payable on loans and borrowings and bonds (2018: $79.6 million), $26.8 million of finance charges related to lease liabilities (2018: $28.5 million), $7.0 million unwinding of discount on provisions and liabilities (2018: $6.6 million), together with other facility fees such as commitment fees, and the amortisation of bond fees. During the six months ended 30 June 2019, finance costs were reduced by interest capitalisation of $1.1 million in respect of the Dunlin bypass pipeline project.

Finance income was a total of $1.1 million for the six months ended 30 June 2019 (2018: $1.4 million).

Taxation
The tax charge for the six months ended 30 June 2019 is $36.2 million (2018: $23.0 million tax credit).

Remeasurements and exceptional items
Remeasurements and exceptional items resulting in a net loss of $120.0 million before tax have been disclosed separately for the six months ended 30 June 2019 (2018: gain of $34.5 million).

Revenue included unrealised losses of $42.9 million in respect of the mark to market movement on the Group's commodity contracts (2018: unrealised gains of $2.5 million). Other items include a charge to the statement of comprehensive income as a result of an increase in fair value relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $26.9 million, which reflects the Group's expectations of continued strong performance at Magnus, $28.1 million unwinding of discount on the end 2018 contingent consideration balance and the provision for settlement of the historical KUFPEC claim of $15.6 million (2018: fair value adjustment of the discounted purchase option valuation for Magnus and associated infrastructure assets of $41.8 million).

A tax credit of $41.7 million (2018: credit of $1.2 million) has been presented as exceptional, representing the tax impact of the above items.

Cash flow and liquidity

Net debt at 30 June 2019 amounted to $1,637.9 million, including PIK of $132.5 million, compared with net debt of $1,774.5 million, including PIK of $132.0 million, at 31 December 2018. The Group has remained in compliance with financial covenants under its debt facilities throughout the six month period. The movement in net debt was as follows:

	$ million
Net debt 1 January 2019	**(1,774.5)**
Net cash flows from operating activities	409.0
Cash capital expenditure	(124.6)
Lease payments	(60.6)
Repayment of Magnus contingent consideration	(36.8)
Net interest and finance costs paid	(48.7)
Non-cash capitalisation of interest to principal of bond and debt facilities	(4.4)
Other movements, primarily net foreign exchange loss on cash and debt	2.7
Net debt 30 June 2019	**(1,637.9)**

The Group's reported net cash flows from operating activities for the six months ended 30 June 2019 were $409.0 million, 20.6% up compared to the comparative period (2018: $339.1 million). The main drivers for this increase are the impact of higher production and a higher realised oil price.

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

	H1 2019 $ million	H1 2018 $ million
North Sea	122.8	115.7
Malaysia	1.7	8.6
Other	0.1	1.5
	124.6	125.8

Cash capital expenditure primarily relates to Kraken activities and the Dunlin bypass pipeline project.

Balance Sheet

The Group's total asset value has decreased by $118.3 million to $5,543.6 million at 30 June 2019 (31 December 2018: $5,661.9 million), mainly due to depletion of oil and gas assets offset by the recognition of the IFRS 16 Leases right-of-use assets. Net current liabilities have decreased by $9.0 million to $292.2 million as at 30 June 2019 (31 December 2018: $301.2 million). Included in the Group's net current liabilities are $159.7 million of estimated future obligations where settlement is ring-fenced to the financial performance at Kraken and Magnus (31 December 2018: $135.4 million).

Property, plant and equipment ('PP&E')
Property, plant and equipment has decreased to $4,282.1 million at 30 June 2019 from $4,349.9 million at 31 December 2018. This decrease is explained by depletion and depreciation charges of $255.4 million largely offset by capital additions of $113.4 million and initial recognition of IFRS 16 Leases right-of-use assets of $79.5 million. Capital additions are set out in the table below:

	H1 2019 $ million
Kraken	34.7
Northern North Sea	36.9
Central North Sea	40.8
Malaysia	1.0
	113.4

Intangible oil and gas assets
Intangible oil and gas assets slightly increased by $1.4 million to $53.2 million at 30 June 2019 (31 December 2018: $51.8 million).

Trade and other receivables
Trade and other receivables have increased by $52.9 million to $328.7 million at 30 June 2019 compared to $275.8 million at 31 December 2018. The increase relates mainly to the timing of crude oil sales, partially offset by other working capital movements.

Cash and net debt
The Group had $180.1 million of cash and cash equivalents and $1,637.9 million of net debt, including PIK of $132.5 million, at 30 June 2019 (31 December 2018: $240.6 million cash and cash equivalents and $1,774.5 million of net debt, including PIK of $132.0 million). Net debt comprises the following liabilities:

- $218.0 million in respect of the Group's £155 million retail bond, including $21.3 million of interest capitalised as an amount payable in kind ('PIK');
- $746.1 million in respect of the Group's high yield bond, including $96.1 million of capitalised PIK;
- $640.1 million in respect of the credit facility, comprising amounts drawn down of $625.0 million and capitalised PIK of $15.1 million;
- $165.0 million in respect of the Oz Management facility, comprising amounts drawn down of $157.6 million and capitalised interest of $7.4 million;
- $31.7 million outstanding under the Tanjong Baram project finance facility; and
- $17.1 million relating to the SVT Working Capital Facility.

On 1 January 2018, the Group adopted the new accounting standard IFRS 9 Financial Instruments. This resulted in an accounting adjustment to opening reserves of $38.1 million; $22.7 million against the retail bond and $15.4 million against the high yield bond. At 1 January 2019 this adjustment was updated, resulting in an accounting adjustment that increased opening reserves by $16.6 million; $18.9 million against the retail bond, $14.5 million against the high yield bond and an offsetting $16.6 million against the interest accrual (see note 17).

Provisions
The Group's decommissioning provision increased by $4.7 million to $676.4 million at 30 June 2019 (31 December 2018: $671.7 million). The movement is driven primarily by interest unwinding of $6.7 million and additions of $4.6 million offset by utilisation of $6.0 million.

Income tax
The Group has a corporation tax liability at 30 June 2019 of $12.3 million, compared to $15.3 million at 31 December 2018. This primarily represents tax payable in relation to the activity in Malaysia.

Deferred tax
The Group's net deferred tax asset has increased from $258.9 million at 31 December 2018 to $277.6 million at 30 June 2019. Total UK tax losses and allowances carried forward at the half year amount to $3,090.4 million (31 December 2018: $3,225.3 million).

Trade and other payables
Trade and other payables of $464.5 million at 30 June 2019 decreased from $502.0 million at 31 December 2018. $447.3 million are payable within one year (31 December 2018: $483.8 million) and $17.2 million are payable after more than one year (31 December 2018: $18.2 million). The movement reflects the timing of settlement of previously deferred invoices and the adjustment in relation to IFRS 9 Financial Instruments (see note 17).

Financial Risk Management

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

During the six months ended 30 June 2019, commodity derivatives generated a total loss of $38.4 million, with revenue and other operating income including a realised gain of $7.6 million. The losses were mostly in respect of open call options and the amortisation of premiums on calls.

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

EnQuest continually reviews its currency exposures and, when appropriate, looks at opportunities to enter into foreign exchange hedging contracts. During the six months ended 30 June 2019, these contracts resulted an unrealised loss of $2.0 million recognised in the income statement.

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

Going concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and project timing and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management also continues to take action to implement cost saving programmes to reduce operational expenditure, general and administrative spend and capital expenditure. At 30 June 2019, the Group had total cash and available facilities of $248.5 million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $79.1 million.

The Group's forecast ('Base case'), which underpins this assessment, assumes Kraken production rates are in line with the Group's production guidance. The Base case has been updated at the half year for the forward curve and uses an oil price assumption of c.$63.7/bbl from August 2019 and c.$60.9/bbl for 2020. Specifically the Base case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside case'):

- a 10% discount to the oil price forward curve;
- a 3.5% decrease in 2019 and a 3% decrease in 2020 production;
- a 2.5% increase in operating costs except for fixed costs related to the Kraken FPSO; and
- a 2.5% increase in capital expenditure from 2020 onwards.

Both cases reflect the bank debt amortisation profile due in the going concern period. The Directors consider the Base case and Downside case to be an appropriate basis on which to make their assessment.

The Base case and Downside case indicate that the Company is covenant compliant and able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Half year Report and Accounts. Should circumstances arise that differ from our projections, the Directors believe that a number of mitigating actions, including asset sales or other funding options, can be executed successfully in the necessary timeframe to meet debt repayment obligations as they become due and in order to maintain liquidity.

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

Risks and uncertainties

The Group's risks and uncertainties are substantially unchanged from those disclosed in the Group's Annual Report and Accounts 2018.

For the purposes of meeting the disclosure requirements of DTR 4.2.7(2) we believe that the Group's principal risks and uncertainties for the remaining six months are:

- **Health, Safety and Environment ('HSE'):**
  - Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including Major Accident Hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental harm and costs, including those associated with the impacts of climate change.

- **Oil price:**
  - A material decline in oil and gas prices may adversely affect the Group's operations and financial condition.

- **Production:**
  - The Group's production is critical to its success and is subject to a variety of risks including: subsurface uncertainties; operating in a mature field environment; potential for significant unexpected shutdowns; and unplanned expenditure (particularly where remediation may be dependent on suitable weather conditions offshore).
  - Lower than expected reservoir performance or insufficient addition of new resources may have a material impact on the Group's future growth.
  - Climate change could result in more severe weather conditions over time, which could impact asset uptime.
  - The Group's delivery infrastructure in the UKCS is, to a significant extent, dependent on the Sullom Voe Terminal.
  - Longer-term production is threatened if low oil prices or low reservoir performance bring forward decommissioning timelines.

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

- **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.

- **Financial:**
  - Inability to fund financial commitments or maintain adequate cash flow and liquidity and/or reduce costs.
  - The Group's term loan and revolving credit facility contains certain financial covenants (based on the ratio of indebtedness incurred under the term loan and revolving facility to EBITDA, finance charges to EBITDA and a requirement for liquidity testing) and an amortisation schedule. 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.
  - Further information is contained in the going concern paragraph in the Financial Review.

- **Human resources:**
  - The Group's success continues to be dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. Industrial action across the sector could also impact on the operations of the Group.

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

- **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.

- **Joint venture partners:**
  - Failure by joint venture parties to fund their obligations.
  - Dependence on other parties where the Group is not the operator.

- **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.

Risks and uncertainties

- **Portfolio concentration:**
  - The Group's assets are 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 aging pipelines and terminals), political/fiscal changes and oil price movements.

- **International business:**
  - The Group's international business is subject to the same risks as the UK business (e.g. HSE, production and project execution); however, there are additional risks that the Group faces including security of staff and assets, political, foreign exchange and currency control, taxation, legal and regulatory, cultural and language barriers and corruption.

- **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.

We urge you to consider carefully the risks above, full details of which are contained in the Group's Annual Report and Accounts 2018.

EnQuest PLC

HALF YEAR GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2019

		2019			2018		
	Notes	**Business performance**	**Remeasurements and exceptional items (note 4)**	**Reported in period**	Business performance	Remeasurements and exceptional items (note 4)	Reported in period
		$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
		Unaudited	***Unaudited***	***Unaudited***	*Unaudited*	*Unaudited*	*Unaudited*
Revenue and other operating income	5	**858,248**	**(42,859)**	**815,389**	548,341	2,492	550,833
Cost of sales		**(588,317)**	**(4,098)**	**(592,415)**	(447,517)	(817)	(448,334)
Gross profit/(loss)		**269,931**	**(46,957)**	**222,974**	100,824	1,675	102,499
Net impairment (charge)/ reversal to oil and gas assets		**-**	**(3,186)**	**(3,186)**	-	(6,569)	(6,569)
General and administration expenses		**(5,137)**	**-**	**(5,137)**	(6,990)	-	(6,990)
Other income		**490**	**1,256**	**1,746**	12,612	47,090	59,702
Other expenses		**(787)**	**(43,049)**	**(43,836)**	(1,211)	(1,422)	(2,633)
Profit/(loss) from operations before tax and finance income/(costs)		**264,497**	**(91,936)**	**172,561**	105,235	40,774	146,009
Finance costs		**(106,839)**	**(28,088)**	**(134,927)**	(121,989)	(6,274)	(128,263)
Finance income		**1,115**	**-**	**1,115**	1,383	-	1,383
Profit/(loss) before tax		**158,773**	**(120,024)**	**38,749**	(15,371)	34,500	19,129
Income tax		**(36,203)**	**41,746**	**5,543**	22,963	1,230	24,193
Profit/(loss) for the period attributable to owners of the parent		**122,570**	**(78,278)**	**44,292**	7,592	35,730	43,322
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Transfers to income statement of cash flow hedges				**-**			(36)
Other comprehensive income for the period, net of tax				**-**			(36)
Total comprehensive income for the period, attributable to owners of the parent				**44,292**			43,286
Earnings per share	6	**$**		**$**	$		$
Basic		**0.075**		**0.027**	0.006[(i)]		0.033[(i)]
Diluted		**0.074**		**0.027**	0.006[(i)]		0.032[(i)]

(i) Restated to reflect the impact of the October 2018 rights issue

EnQuest PLC

GROUP BALANCE SHEET
At 30 June 2019

	Notes	***30 June 2019***	*31 December 2018*
		$'000	*$'000*
ASSETS		***Unaudited***	*Unaudited*
Non-current assets			
Property, plant and equipment	7	**4,282,067**	4,349,913
Goodwill		**283,950**	283,950
Intangible oil and gas assets	8	**53,202**	51,803
Deferred tax assets		**304,525**	286,721
Other financial assets	12	**2,254**	5,989
		4,925,998	4,978,376
Current assets			
Inventories		**88,133**	100,532
Trade and other receivables		**328,675**	275,809
Current tax receivable		**-**	20
Cash and cash equivalents		**180,125**	240,604
Other financial assets	12	**20,709**	66,575
		617,642	683,540
TOTAL ASSETS		**5,543,640**	5,661,916
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	9	**345,331**	345,331
Merger reserve		**662,855**	662,855
Share-based payment reserve		**(4,743)**	(6,884)
Retained earnings		**45,464**	(17,750)
TOTAL EQUITY		**1,048,907**	983,552
Non-current liabilities			
Borrowings	10	**618,832**	735,470
Bonds	11	**957,288**	990,282
Leases liability		**680,396**	615,781
Provisions	14	**1,284,192**	1,306,092
Trade and other payables		**17,241**	18,209
Deferred tax liabilities		**26,960**	27,815
		3,584,909	3,693,649
Current liabilities			
Borrowings	10	**232,145**	311,261
Leases liability		**81,271**	93,169
Provisions	14	**134,766**	81,050
Trade and other payables		**447,290**	483,781
Other financial liabilities	12	**2,007**	142
Current tax payable		**12,345**	15,312
		909,824	984,715
TOTAL LIABILITIES		**4,494,733**	4,678,364
TOTAL EQUITY AND LIABILITIES		**5,543,640**	5,661,916

EnQuest PLC

GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2019

	Share capital and share premium	*Merger reserve*	*Cash flow hedge reserve*	*Share-based payments reserve*	*Retained earnings*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
Balance at 1 January 2018 (as previously reported)	**210,402**	**662,855**	**36**	**(5,516)**	**(106,911)**	**760,866**
Adjustment on adoption of IFRS 9					(38,117)	(38,117)
Balance at 1 January 2018	**210,402**	**662,855**	**36**	**(5,516)**	**(145,028)**	**722,749**
Profit/(loss) for the period	-	-	-	-	43,322	43,322
Other comprehensive income	-	-	(36)	-	-	(36)
Total comprehensive income for the period	-	-	(36)	-	43,322	43,286
Share-based payment	-	-	-	2,044	-	2,044
Balance at 30 June 2018	**210,402**	**662,855**	**-**	**(3,472)**	**(101,706)**	**768,079**
Balance at 31 December 2018 (as previously reported)	**345,331**	**662,855**	**-**	**(6,884)**	**(17,750)**	**983,552**
Adjustment on adoption of IFRS 9/IFRS 16 (note 17)					18,922	18,922
Balance at 1 January 2019	**345,331**	**662,855**	**-**	**(6,884)**	**1,172**	**1,002,474**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	44,292	44,292
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**44,292**	**44,292**
Share-based payment	-	-	-	2,141	-	2,141
Balance at 30 June 2019	**345,331**	**662,855**	**-**	**(4,743)**	**45,464**	**1,048,907**

GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2019

	Notes	**2019 $'000 Unaudited**	*2018 $'000 Unaudited*
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	16	**426,170**	318,251
Cash (paid)/received on sale/(purchase) of financial instruments		**4,936**	-
Proceeds from part exercise of Thistle decommissioning option		**-**	30,000
Decommissioning spend		**(5,997)**	(7,223)
Income taxes paid		**(16,114)**	(1,909)
Net cash flows from/(used) operating activities		**408,995**	339,119
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(122,904)**	(125,797)
Purchase of intangible oil and gas assets		**(1,661)**	-
Repayment of Magnus contingent consideration		**(36,787)**	(27,232)
Interest received		**472**	559
Net cash flows (used)/from in investing activities		**(160,880)**	(152,470)
FINANCING ACTIVITIES			
Net (repayment of)/proceeds from loan facilities		**(200,675)**	(35,145)
Repayment of obligations under leases		**(60,623)**	(77,300)
Interest paid		**(48,209)**	(39,931)
Other finance costs paid		**(944)**	(15,778)
Net cash flows (used)/from financing activities		**(310,451)**	(168,154)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(62,336)**	18,495
Net foreign exchange on cash and cash equivalents		**2,616**	(2,712)
Cash and cash equivalents at 1 January		**237,200**	169,668
CASH AND CASH EQUIVALENTS AT 30 JUNE		**177,480**	185,451
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**177,480**	185,451
Restricted cash		**2,645**	3,292
Cash and cash equivalents per balance sheet		**180,125**	188,743

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2019

1. Corporate information

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

The principal activities of the Company and its subsidiaries (together the 'Group') is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner.

The Group's half year condensed financial statements for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 4 September 2019.

2. Summary of significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The presentation currency of the Group financial information is United States Dollars and all values in the Group financial information are rounded to the nearest thousand ($'000) except where otherwise stated.

The interim report does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006.

Consolidated statutory accounts for the year ended 31 December 2018, on which the auditors gave an unqualified audit report, have been filed with the Registrar of Companies.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption is provided in the 'Going Concern' section of the Financial Review as set out on page 11.

Accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements for the six months ended 30 June 2019 are materially consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. Any other standard, interpretation or amendment that was issued but not yet effective has not been adopted by the Group.

New and amended standards adopted by the Group

The following new standard became applicable for the current reporting period and the Group had to change its accounting policies as a result of the adoption:

- IFRS 16 Lease Accounting

The impact of the adoption of this standard and the new accounting policies are disclosed in note 17. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2019

3. Segment information

Segment information for the six month period is as follows:

Period ended 30 June 2019 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
External customers	778,778	71,643	262	850,683	(35,294)	815,389
Total Group revenue	**778,778**	**71,643**	**262**	**850,683**	**(35,294)**	**815,389**
Segment profit/(loss)	**180,999**	**28,484**	**1,482**	**210,965**	**(38,404)**	**172,561**

Period ended 30 June 2018 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
External customers	550,500	75,146	-	625,646	(74,813)	550,833
Total Group revenue	**550,500**	**75,146**	**-**	**625,646**	**(74,813)**	**550,833**
Segment profit/(loss)	**196,349**	**20,268**	**4,652**	**221,269**	**(75,260)**	**146,009**

Adjustments and eliminations mainly includes other income and costs, and gains and losses on derivatives which are not allocated to individual segments as the underlying instruments are managed on a Group basis. Inter-segment revenues are eliminated within the relevant segment.

Reconciliation of profit:

	Period ended 30 June 2019 $'000	*Period ended 30 June 2018 $'000*
Segment profit/(loss)	**210,965**	221,269
Finance costs	**(134,927)**	(128,263)
Finance income	**1,115**	1,383
Gains and losses on oil and foreign exchange derivatives	**(38,404)**	(75,260)
Profit/(loss) before tax	**38,749**	19,129

4. Remeasurements and exceptional items

Period ended 30 June 2019 $'000	Fair value remeasurement (i)	Impairments and write offs (ii)	Other (iii)	Total
Revenue and other operating income	(42,859)	-	-	(42,859)
Cost of sales	(4,074)	(24)	-	(4,098)
Net impairment (charge)/reversal on oil and gas assets	-	(3,186)	-	(3,186)
Other income	-	-	1,256	1,256
Other expenses	(26,900)	(519)	(15,630)	(43,049)
Finance costs	-	-	(28,088)	(28,088)
	(73,833)	**(3,729)**	**(42,462)**	**(120,024)**
Tax on items above	29,510	1,492	10,744	41,746
	(44,323)	**(2,237)**	**(31,718)**	**(78,278)**

i. Fair value remeasurements include unrealised mark to market movements on derivative contracts and other financial instruments. It also includes the impact of recycling realised gains and losses (including option premiums) out of ‘Remeasurements and exceptional items’ and into ‘Business performance’ profit or loss. Other expenses include the fair value adjustment relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $26.9 million (note 14) (2018: Other income includes the fair value adjustment of the discounted purchase option valuation for Magnus and associated infrastructure of $41.8 million and finance costs include the fair value adjustment relating to the contingent consideration on the 25% acquisition of Magnus and associated infrastructure of $6.3 million).

ii. Impairments and write offs include an impairment of tangible oil and gas assets totalling $3.2 million (2018: $6.6 million).

iii. Other includes other items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period so as to facilitate comparison with prior periods and to better assess trends in financial performance. Net other expenses mainly includes the provision for settlement of the historical KUFPEC claim of $15.6 million (note 14). Finance costs reflects the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $28.1 million (note 14) (2018: Net other income mainly relates to release of a $5.3 million provision associated with an exploration licence relinquished in the period).

iv. Other tax exceptional items include the tax effect of the derecognition of current period tax losses (2018: $6.9 million of current period tax losses).

Period ended 30 June 2018 $'000	Fair value remeasurement	Impairments and write offs	Other	Total
Revenue and other operating income	2,492	-	-	2,492
Cost of sales	(447)	(370)	-	(817)
Net impairment (charge)/reversal on oil and gas assets	-	(6,569)	-	(6,569)
Other income	41,790	-	5,300	47,090
Other expenses	(355)	(593)	(474)	(1,422)
Finance costs	(6,250)	-	(24)	(6,274)
	37,230	**(7,532)**	**4,802**	**34,500**
Tax on items above	(773)	2,988	191	2,406
Other tax exceptional items (iv)	-	-	(1,176)	(1,176)
	36,457	**(4,544)**	**3,817**	**35,730**

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2019

5. Revenue and other operating income

The Group's operations and main revenue streams are those described in the last annual financial statements.
The Group's revenue is mainly derived from contracts with customers, except for amounts related to derivative contracts.

	Period ended 30 June 2019 $'000	*Period ended 30 June 2018 $'000*
Revenue from contracts with customers		
Revenue from crude oil sales	**761,850**	608,898
Revenue from gas and condensate sales	**79,941**	10,720
Tariff revenue	**3,345**	2,032
Total revenue from contracts with customers	**845,136**	621,650
Rental income	**3,524**	3,612
Realised (losses)/gains on oil derivative contracts (note 12)	**7,565**	(77,305)
Other operating revenue	**2,023**	384
Business performance revenue	**858,248**	548,341
Unrealised (losses)/gains on oil derivative contracts[(i)] (note 12)	**(42,859)**	2,492
Total revenue and other operating income	**815,389**	550,833

(i) Unrealised gains and losses on oil derivative contracts which are held for trading are disclosed as exceptional items in the income statement (see note 4)

Revenue is primarily derived within Europe on short-term contracts which are, on average, settled between 15 - 30 days post control gained by the customer.

Revenue derived from the sale of crude oil, gas and condensate is recognised as goods transferred at a point in time when control is gained by the customer on collection or delivery. The sale of oil is subject to market prices. The Group manages this risk through the use of oil derivative contracts. Revenue derived from tariff and rental income is recognised as the service is transferred over time.

6. 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.

Basic and diluted earnings per share are calculated as follows:

	Profit /(loss) after tax Period ended 30 June		Weighted average number of Ordinary shares Period ended 30 June		Earnings per share Period ended 30 June	
	2019	*2018*	***2019***	*2018[(1)]*	***2019***	*2018[(1)]*
	$'000	*$'000*	***million***	*million*	***$***	*$*
Basic	**44,292**	43,322	**1,628.6**	1,328.3	**0.027**	0.033
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**-**	-	**30.7**	50.3	**-**	(0.001)
Diluted	**44,292**	43,322	**1,659.3**	1,378.6	**0.027**	0.032
Basic (excluding remeasurement and exceptional items)	**122,570**	7,592	**1,628.6**	1,328.3	**0.075**	0.006
Diluted (excluding remeasurement and exceptional items)	**122,570**	7,592	**1,659.3**	1,378.6	**0.074**	0.006

(i) Restated to reflect the impact of the October 2018 rights issue

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7. Property, plant and equipment

	Oil and gas assets	*Office furniture, fixtures and fittings*	*Right-of-use assets*	*Total*
	$'000	*$'000*	*$'000*	*$'000*
Cost:				
At 1 January 2019 (as previously reported)	9,137,566	60,572	-	9,198,138
IFRS 16 recognition and reclassification[(i)] (note 17)	(771,975)	-	851,509	79,534
At 1 January 2019	**8,365,591**	**60,572**	**851,509**	**9,277,672**
Additions	104,041	1,269	8,133	113,443
Change in decommissioning provision (note 14)	3,975	-	-	3,975
Change in cost recovery provision (note 14)	(5,895)	-	-	(5,895)
Reclass from/(to) intangibles (note 8)	(292)	-	-	(292)
At 30 June 2019	**8,467,420**	**61,841**	**859,642**	**9,388,903**
Accumulated depletion and impairment:				
At 1 January 2019 (as previously reported)	(4,805,847)	(42,378)	-	(4,848,225)
IFRS 16 recognition and reclassification[(i)] (note 17)	81,233	-	(81,233)	-
At 1 January 2019	**(4,724,614)**	**(42,378)**	**(81,233)**	**(4,848,225)**
Charge for the period	(212,159)	(2,457)	(40,827)	(255,443)
Impairment charge for the period	(3,186)	-	-	(3,186)
Reclass from/(to) intangibles (note 8)	18	-	-	18
At 30 June 2019	**(4,939,941)**	**(44,835)**	**(122,060)**	**(5,106,836)**
Net carrying amount:				
At 30 June 2019	**3,527,479**	**17,006**	**737,582**	**4,282,067**
At 31 December 2018	4,331,719	18,194	-	4,349,913
At 30 June 2018	3,688,751	18,754	-	3,707,505

(i) Following the adoption of IFRS 16 Leases, the Kraken FPSO lease asset has been reclassified to right-of-use assets

8. Intangible oil and gas assets

	Cost	**Accumulated impairment**	**Net carrying amount**
	$'000	**$'000**	**$'000**
At 1 January 2019	**165,586**	**(113,783)**	**51,803**
Additions	1,663	-	1,663
Write-off of relinquished licences previously impaired	(408)	408	-
Unsuccessful exploration expenditure written off	-	7	7
Change in decommissioning provision (note 14)	(19)	-	(19)
Reclass from/(to) tangible fixed assets (note 7)	292	(18)	274
Impairment charge for the period	-	(526)	(526)
At 30 June 2019	**167,114**	**(113,912)**	**53,202**

9. Share capital and premium

The share capital of the Company as at 30 June 2019 was $118.2 million (31 December 2018: $118.2 million) comprising 1,695,418,806 Ordinary shares of £0.05 each (31 December 2018: 1,694,406,148) and share premium of $227.1 million (31 December 2018: $227.1 million).

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10. Loans and borrowings

The Group's loans are debt instruments carried at amortised cost as follows:

	30 June 2019			*31 December 2018*		
	Principal	***Fees***	***Total***	***Principal***	***Fees***	***Total***
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Credit facility(i)	**640,097**	**-**	**640,097**	799,444	–	799,444
Oz Management facility(ii)	**164,998**	**(2,975)**	**162,023**	178,524	(3,325)	175,199
Crude oil prepayment	**-**	**-**	**-**	22,222	(111)	22,111
SVT Working Capital Facility	**17,127**	**-**	**17,127**	15,747	–	15,747
Tanjong Baram loan	**31,730**	**-**	**31,730**	31,730	–	31,730
Trade creditor loan	**-**	**-**	**-**	2,500	–	2,500
Total loans	**853,952**	**(2,975)**	**850,977**	1,050,167	(3,436)	1,046,731
Due within one year			**232,145**			311,261
Due after more than one year			**618,832**			735,470
Total loans			**850,977**			1,046,731

(i) Includes 'Payment in Kind' interest totalling $15.1 million (31 December 2018: $14.4 million)
(ii) Includes capitalised interest totalling $7.4 million (31 December 2018: $3.5 million)

11. Bonds

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

	30 June 2019			*31 December 2018*		
	Principal	***Fees***	***Total***	***Principal***	***Fees***	***Total***
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
High yield bond(i)	**746,056**	**(5,479)**	**740,577**	760,553	(6,475)	754,078
Retail bond(ii)	**218,040**	**(1,329)**	**216,711**	237,778	(1,574)	236,204
Total bonds due after more than one year	**964,096**	**(6,808)**	**957,288**	998,331	(8,049)	990,282

(i) Includes 'Payment in Kind' interest totalling $96.1 million (31 December 2018: $96.1 million)
The total carrying value of the bond as at 30 June 2019 is $754.5 million. This includes bond principal of $746.1 million, bond interest accrual of $10.9 million and liability for the IFRS 9 Financial Instruments loss on modification of $3.0 million less unamortised fees of $5.5 million (2018: $765.1 million. Includes bond principal of $746.1 million, bond interest accrual of $11.0 million and liability for the IFRS 9 Financial Instruments loss on modification of $14.5 million less unamortised fees of $6.5 million)
(ii) Includes 'Payment in Kind' interest totalling $21.3 million (31 December 2018: $21.5 million)
The total carrying value of the bond as at 30 June 2019 is $235.0 million. This includes bond principal of $218.0 million, bond interest accrual of $5.6 million and liability for the IFRS 9 Financial Instruments loss on modification of $12.7 million less unamortised fees of $1.3 million (2018: $242.0 million. This includes bond principal of $218.9 million, bond interest accrual of $5.8 million and liability for the IFRS 9 Financial Instruments loss on modification of $18.9 million less unamortised fees of $1.6 million)

12. Other financial assets and financial liabilities

(a) Summary

	30 June 2019		31 December 2018	
	Assets	**Liabilities**	Assets	Liabilities
	$'000	**$'000**	$'000	$'000
Fair value through profit or loss:				
Commodity contracts	**11,693**	**243**	54,733	142
Foreign exchange contracts	-	**1,764**	248	-
Carbon contracts	-	-	2,077	-
Amortised cost:				
Other receivables	**9,016**	-	9,517	-
Total current	**20,709**	**2,007**	66,575	142
Fair value through profit or loss:				
Quoted equity shares	**31**	-	31	-
Amortised cost:				
Other receivables	**2,223**	-	5,958	-
Total non-current	**2,254**	-	5,989	-

The fair value measurements of the financial instruments (excluding Level 1 investments) held by the Group have been derived based on observable market inputs (as characterised within Level 2 of the fair value hierarchy under IFRS 13). There have been no changes to classifications from 31 December 2018.

(b) Commodity contracts

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

During the six months ended 30 June 2019, no commodity derivatives were designated as effective oil hedges.

Commodity derivative are designated at fair value through profit and loss ('FVTPL'), and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, bought put options and commodity swap contracts.

During the six months ended 30 June 2019, losses totalling $34.2 million (2018: losses of $71.7 million) were recognised in respect of commodity contracts designated as FVTPL. This included realised gains totalling $8.7 million (2018: losses of $74.2 million) on contracts that matured during the period, and mark to market losses totalling $42.9 million (2018: gains of $2.5 million). Of the realised amounts recognised during the period, $4.7 million (2018: $16.0 million) was realised in Business performance revenue in respect of the amortisation of premiums paid on sale of these options. The premiums received and paid are amortised into Business performance revenue over the life of the option.

In October 2017, the Group entered into an 18-month collar structure for $80 million, which expired in April 2019. The collar included 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. Of the amounts recognised in respect to commodity contracts, losses totalling $1.1 million were realised on the collar (2018: losses totalling $3.1 million) and open market to market gains of $nil million were recognised within unrealised revenue (2018: $0.4 million).

(c) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, including Sterling, Euros, Swedish Krona, Norwegian Krone and United Arab Emirates Dirhams. During the six months ended 30 June 2019, these contracts resulted an unrealised loss of $2.0 million recognised in the income statement (2018: loss of $0.4 million).

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(d) Income statement impact

The income/(expense) recognised for commodity, currency and interest rate derivatives are as follows:

	Revenue and other operating income		*Cost of sales*		*Finance costs*	
Period ended	*Realised*	*Unrealised*	*Realised*	*Unrealised*	*Realised*	*Unrealised*
30 June 2019	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Call options	**8,053**	**(47,649)**	**-**	**-**	**-**	**-**
Commodity swaps	**2,604**	**4,848**	**-**	**-**	**-**	**-**
Commodity futures	**(1,985)**	**(58)**	**-**	**-**	**-**	**-**
Purchase and sale of crude oil	**(1,107)**	**-**	**-**	**-**	**-**	**-**
Foreign exchange swaps	**-**	**-**	**(42)**	**(2,012)**	**-**	**-**
Carbon forward contracts	**-**	**-**	**1,006**	**(2,062)**	**-**	**-**
	7,565	**(42,859)**	**964**	**(4,074)**	**-**	**-**

	Revenue and other operating income		*Cost of sales*		*Finance costs*	
Period ended	*Realised*	*Unrealised*	*Realised*	*Unrealised*	*Realised*	*Unrealised*
30 June 2018	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Call options	(25,316)	(26,882)	-	-	-	-
Commodity swaps	(47,740)	29,158	-	-	-	-
Commodity futures	(1,125)	216	-	-	-	-
Purchase and sale of crude oil	(3,124)	-	-	-	-	-
Foreign exchange swap contracts	-	-	-	(447)	-	-
Interest rate swap	-	-	-	-	(207)	-
	(77,305)	**2,492**	**-**	**(447)**	**(207)**	**-**

(e) Other receivables and liabilities

	Other receivables
	$'000
At 1 January 2019	**15,506**
Utilised/(collected) during the period	(4,758)
Unwinding of discount	522
At 30 June 2019	**11,270**
Comprised of:	
BUMI receivable	11,239
Other	31
Total	**11,270**
Classified as:	
Current	9,016
Non-current	2,254
	11,270

Other receivables

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 during 2019 and onwards. Included within other receivables at 30 June 2019 is an amount of $11.2 million representing the discounted value of EnQuest's share of these repayments (31 December 2018: $15.5 million). A total of $4.8 million was collected during the period. Unwinding of discount of $0.5 million is included within finance income in the six months ended 30 June 2019 (30 June 2018: $0.7 million).

There were no other liabilities at 30 June 2019 and 31 December 2018.

13. Fair value measurement

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

30 June 2019	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Derivative financial assets at FVPL				
Oil commodity derivative contracts[(i)]	11,693	-	11,693	-
Other financial assets at FVPL				
Quoted equity shares	31	31	-	-
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Oil commodity derivative contracts[(i)]	243	-	243	-
Foreign currency derivative contracts[(ii)]	1,764	-	1,764	-
Contingent consideration	678,637	-	-	678,637
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings	853,952	-	-	853,952
Obligations under leases	765,784	-	-	765,784
Retail bond	185,879	185,879	-	-
High yield bond	545,683	-	545,683	-

31 December 2018	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Derivative financial assets at FVPL				
Oil commodity derivative contracts[(i)]	54,733	–	54,733	–
Foreign currency derivative contracts[(ii)]	248	–	248	–
Carbon commodity derivative contracts[(ii)]	2,077	–	2,077	–
Other financial assets at FVPL				
Quoted equity shares	31	31	–	–
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Oil commodity derivative contracts[(i)]	142	–	142	–
Other financial liabilities measured at FVPL				
Contingent consideration	660,436	–	–	660,436
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings	1,050,167	–	–	1,050,167
Obligations under leases	708,950	–	–	708,950
Retail bond	156,764	156,764	–	–
High yield bond	534,363	–	534,363	–

(i) Valued using readily available information in the public markets and quotations provided by brokers and price index developers
(ii) Valued by the counterparties, with the valuations reviewed internally and corroborated with market data

There have been no transfers between Level 1 and Level 2 during the period (2018: no transfers).

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14. Provisions

	Decommissioning provision	*Cost recovery provision*	*Contingent Consideration*	*Surplus lease provision*	*Other provisions*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 31 December 2018	**671,740**	**5,895**	**660,436**	**2,344**	**46,727**	**1,387,142**
Adjustment on adoption of IFRS 16 (note 17)	-	-	-	(2,344)	-	(2,344)
At 1 January 2019	**671,740**	**5,895**	**660,436**	**-**	**46,727**	**1,384,798**
Additions	4,566	-	-	-	22,500	27,066
Changes in estimates	(610)	(5,895)	-	-	-	(6,505)
Changes in fair value	-	-	26,900	-	-	26,900
Unwinding of discount	6,713	-	28,088	-	336	35,137
Utilisation	(5,997)	-	(36,787)	-	(5,654)	(48,438)
At 30 June 2019	**676,412**	**-**	**678,637**	**-**	**63,909**	**1,418,958**
Classified as						
Current	13,251	-	109,707	-	11,808	134,766
Non-current	663,161	-	568,930	-	52,101	1,284,192
	676,412	**-**	**678,637**	**-**	**63,909**	**1,418,958**

Decommissioning provision
An additional provision of $4.6 million was recognised in relation to the development carried out on the Dunlin bypass and Scolty/Crathes pipeline projects during the period. No changes to the underlying cost estimates have occurred, with the changes in estimate relating to the impact of exchange rates on the underlying Sterling and Malaysian Ringgit cost estimates.

Cost recovery provision
As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If on 1 January 2017, KUFPEC's costs to first production had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid until the capital costs to first production have been recovered. As at 30 June 2019, there was no further cost recovery, as per the agreement, and the provision was released against the corresponding balance in property, plant and equipment..

Contingent consideration
On 1 December 2017, the acquisition of the initial 25% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') was funded through a vendor loan from BP. The loan is repayable solely out of the cash flows from the acquired assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10%. A total of $24.3 million was repaid during the first half of 2019. Unwinding of discount of $0.8 million was charged to finance costs during the period. The remaining provision of $10.4 million is expected to be paid during H2 2019, as disclosed within current provisions (31 December 2018: $33.9 million).

On 1 December 2018, the acquisition of the additional 75% interest in the Magnus oil field and associated interests was part funded through deferred consideration and profit share arrangement with BP, originally recognised at a discounted value of $625.3 million. The loan is repayable solely out of the cash flows which are achieved from the 75% interest in Magnus and is secured over the acquired assets. It accrues interest at a rate of 7.5% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment over the life of the field. A total of $12.5 million was repaid during the first half of 2019. An increase in fair value of $26.9 million, which reflects the Group's expectations of continued strong performance at Magnus and unwinding of discount of $27.3 million was charged to finance costs during the period. At 30 June 2019, the provision was $668.2 million (31 December 2018: $626.6 million).

Surplus lease provision
In June 2015, the Group entered a 20-year lease in respect of the Group's office building in Aberdeen, with part of the building subsequently being sub-let with a rent-free incentive. A provision was recognised for the unavoidable costs in relation to the sub-let space. On the adoption of IFRS 16, the impact of a surplus or onerous lease is assessed as part of the value of the right-of-use asset, within property, plant and equipment. The provision was assessed on transition and taken through equity (see note 17).

Other provisions
As part of the Magnus and associated interests acquisitions, EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 30 June 2019, the amount due to BP by reference to 30.0% of BP's decommissioning costs on Magnus on an after-tax basis was $12.6 million (31 December 2018: $12.6 million).

At 30 June 2019, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron on an after-tax basis was $33.9 million (31 December 2018: $33.6 million). Unwinding of discount of $0.3 million is included within finance income for the period ended 30 June 2019.

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 previous years, resulting in the remaining $15.6 million being taken to the statement of comprehensive income through remeasurements and exceptional items. A total of $5.6 million was paid in June 2019, with $11.3 million disclosed within current provision as scheduled for repayment.

15. Commitments and contingencies

Commitments

At 30 June 2019, the Group had capital commitments of $6.0 million (31 December 2018: $15.7 million).

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. Other than as discussed below, the Company is not, nor has been during the past 12 months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on the Company's and/or the Group's financial position or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

The Group is currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately $15.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

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16. Cash flow information

Cash generated from operations

	Period ended 30 June 2019 $'000	*Period ended 30 June 2018 $'000*
Profit/(loss) before tax	**38,749**	19,129
Depreciation	**5,077**	2,809
Depletion	**250,366**	216,518
Exploration costs impaired/(reversed) and written off	**519**	531
Net impairment charge/(reversal) to oil and gas assets	**3,186**	6,569
Write down of inventory	**5,679**	(384)
Write down of receivable	**(1,203)**	-
Change in purchase option value	**-**	(41,790)
Impairment (reversal)/charge to investments	**-**	62
Share-based payment charge	**2,141**	2,044
Change in deferred consideration	**54,988**	-
Change in surplus lease provision	**-**	(210)
Change in decommissioning provision	**6,713**	6,386
Change in other provisions	**15,936**	1,325
Reversal of contingent provision	**-**	(5,300)
Amortisation of option premiums	**(4,654)**	16,044
Unrealised (gain)/loss on financial instruments	**42,859**	(2,492)
Unrealised loss/(gain) on other financial instruments	**4,074**	447
Unrealised exchange (gain)/loss	**(412)**	(12,612)
Net finance (income)/expense	**98,675**	120,494
Operating profit before working capital changes	**522,693**	329,570
(Increase)/decrease in trade and other receivables	**(42,353)**	(33,888)
(Increase)/decrease in inventories	**5,786**	(10,601)
Increase/(decrease) in trade and other payables	**(59,956)**	33,170
Cash generated from operations	**426,170**	318,251

Changes in liabilities arising from financing activities

Period ended 30 June 2019	***Loans and borrowings $'000***	***Carrying value of bonds $'000***	***Lease liabilities $'000***	***Total $'000***
At 1 January 2019 (as previously reported)	**(1,050,167)**	**(1,015,141)**	**(708,950)**	**(2,774,258)**
Adjustment on adoption of IFRS 9/IFRS 16	-	16,830	(79,534)	(62,704)
At 1 January 2019	**(1,050,167)**	**(998,311)**	**(788,484)**	**(2,836,962)**
Cash flows	202,121	33,839	60,623	296,583
Additions	(1,446)	-	(8,133)	(9,579)
Foreign exchange adjustments	66	(679)	1,099	486
Capitalised interest and PIK	(4,526)	-	-	(4,526)
Net finance (income)/expense	-	(31,174)	(26,772)	(57,946)
At 30 June 2019	**(853,952)**	**(996,325)**	**(761,667)**	**(2,611,944)**

17. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Lease Accounting on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

Information on the implementation of new accounting standards is included in EnQuest Annual Report within note 2 'Summary of significant accounting policies'.

IFRS 16 Lease Accounting – Adopted from 1 January 2019

The Group has adopted IFRS 16 Leases from 1 January 2019, using the modified retrospective method, which resulted in changes in accounting policies and opening balance sheet adjustments, as recognised in these financial statements. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. As at 1 January 2019 for each identified lease, the Group has recognised a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has applied the practical expedient to grandfather the definition of a lease on transition. On application of IFRS 16, all contracts entered into before 1 January 2019 which had been identified as leases in accordance with IAS 17 are accounted for in line with IFRS 16. Contracts which have not been identified as a lease continue to be accounted for in line with their historical treatment. The Group has also elected to use the recognition exemptions proposed for lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

At 1 January 2019, the Group recognised new right-of-use assets and lease liabilities of $79.5 million. When measuring lease liabilities, the lease payments were discounted using the applicable company incremental borrowing rate at 1 January 2019.

The difference between the IFRS 16 lease liability recognised at 1 January 2019, discounted at the Group's weighted-average incremental borrowing rate, versus those leases disclosed at 31 December 2018 are driven by: identified operating leases at 31 December 2018 recognised as lease liability on transition; exempt leases (low-value and short-term); and extension options reasonably certain to be extended that were not included in the previously disclosed lease commitment.

The Group sub-leases part of Annan House, the Aberdeen office. The Group classified the sub lease as an operating lease, because it does not transfer substantially all the risks and rewards incidental to the ownership of the assets. On the adoption of IFRS 16, the impact of a surplus or onerous lease is assessed as part of the value of the right-of-use asset, within property, plant and equipment. As a result, the surplus lease provision held for Annan House was assessed on transition and an adjustment for $2.3 million was taken through opening reserves and against the provision. The Group will continue to assess the recovery of the asset and will take any provision for impairment directly to the right-of-use asset.

On 1 January 2019, the existing Kraken FPSO lease asset was transferred out of oil and gas assets and into right-of-use assets, at a net book value of $690.7 million.

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2019

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are recognised in the opening balance sheet on 1 January 2019.

Group Balance Sheet (extract)	31 December 2018 As originally presented		1 January 2019
		IFRS 16	Restated
	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment			
Oil & Gas assets	4,331,719	(690,742)	3,640,977
Office furniture, fixtures and fittings	18,194	-	18,194
Right-of-use assets	-	770,276	770,276
Total	**4,349,913**	**79,534**	**4,429,447**
Equity			
Retained earnings	(17,750)	2,344	(15,406)
Non-current liabilities			
Obligations under leases	615,781	79,534	695,315
Current liabilities			
Obligations under leases	93,169	-	93,169
Surplus lease provision	2,344	(2,344)	-
Total	**693,544**	**79,534**	**773,078**

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	Lease liabilities
	$'000	$'000
As at 31 Dec	**-**	**708,950**
Finance lease reclassification	690,742	-
IFRS 16 recognition adjustment	79,534	79,534
Additions in the period	8,133	8,133
Depreciation expense	(32,927)	-
Interest expense	-	26,772
Payments	-	(60,623)
Foreign exchange movements		(1,099)
As at 30 Jun	**745,482**	**761,667**
Current		**81,271**
Non-current		**680,396**
		761,667

IFRS 16 Leases - Accounting Policies applied from 1 January 2019

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. Generally, the Group uses its incremental borrowing rate as the discount rate.

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 amount expected to be payable by the lessee under residual value guarantees;
- 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 presented as a separate line in the consolidated statement of financial position.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, 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 transfer's 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 right-of-use assets are presented within property, plant and equipment within the consolidated statement of financial position.

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 within these accounting policies.

Variable rents that do not depend on an index or rate are not included in the measurement 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 with in 'Cost of sales' or 'General and administration expenses' in the statement of profit or loss.

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 sublease as two separate contracts. The sublease 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.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
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IFRS 9 Financial Instruments – Adopted from 1 January 2018

On 1 January 2018, the Group adopted the new accounting standard IFRS 9 Financial Instruments. This resulted in an accounting adjustment to opening reserves of $38.1 million; $22.7 million against the retail bond and $15.4 million against the high yield bond.

At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment taken through opening reserves of $16.6 million and through the amortised value of the bonds (reduction of $18.9 million against the retail bond and $14.5 million against the high yield bond) offset by a charge of $16.6 million against the bond interest accrual. There was no change in effective interest rate. These adjustments have been taken through this year's financial statements. The Directors believe these adjustments are not material to the prior year financial statements and would not have a material influence on the users of the financial statements.

Group Balance Sheet (extract)	31 December 2018 (Post IFRS 16 adjustment) $'000	IFRS 9 $'000	1 January 2019 Restated $'000
Non-current liabilities			
Bonds	998,331	(33,407)	964,924
Trade and other payables: Bond accrual	-	16,597	16,597
Current liabilities			
Bonds	-	-	-
Trade and other payables: Bond accrual	16,810	-	16,810
Total	1,015,141	16,810	**998,331**
Equity			
Retained earnings (brought forward after impact of IFRS 16)	(15,406)	16,578	1,172
Profit and loss: Interest and foreign exchange in 2019	-	232	232
Total	(15,406)	16,810	**1,404**

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge, the condensed set of financial statements for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the half year management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules.

A list of current Directors is maintained on the EnQuest PLC website which can be found at www.enquest.com.

By the order of the Board

Amjad Bseisu
Chief Executive

4 September 2019

Independent review report to EnQuest PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises group statement of comprehensive income, group balance sheet, group statement of changes in equity, group cash flow statement and related notes 1 to 17. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

4 September 2019