Providing creative solutions through the energy transition

Annual Report and Accounts 2020

EnQuest

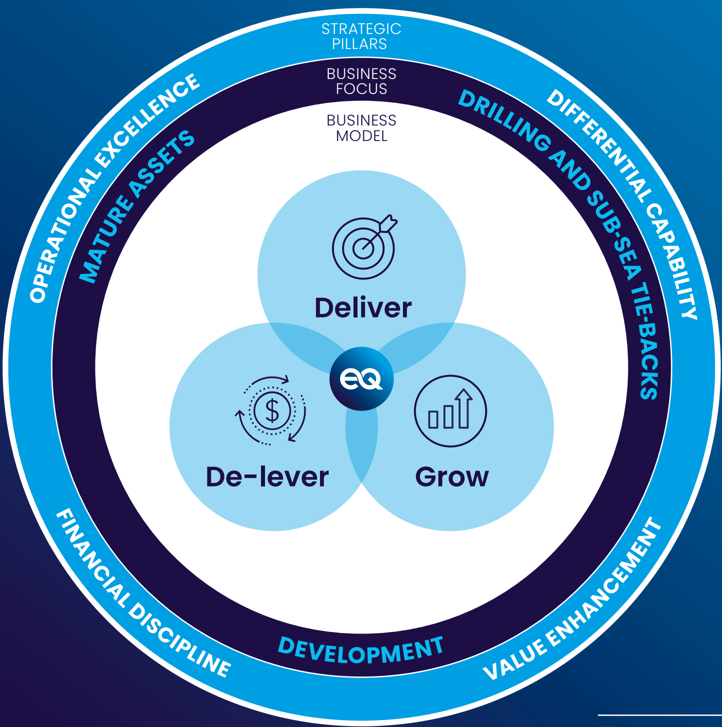
Our purpose

Providing creative solutions through the energy transition

Our strategy

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

Our business model



Read more
See pages 01, 06 to 07, 10 to 23 and 26–33

Contents

Highlights

EnQuest's quick and decisive actions in early 2020 have transformed the Company, materially lowering its cost base and free cash flow breakeven[1]. Production for the year was in line with guidance, reflecting a better than expected performance at Kraken offset by lower production in Malaysia, while operating and capital expenditures were reduced by $296 million. Free cash flow generation of $211 million was strong, facilitating a further reduction in net debt. Business performance gross profit of $71.4 million was 84.8% lower than 2019, primarily reflecting lower market prices for oil. The Group recorded a Business performance loss before finance costs and tax of $20 million, reflecting the increased non-cash decommissioning provision for fully impaired assets.

The proposed acquisition of the Golden Eagle assets in the UK North Sea will strengthen the business, adding material low-cost production and cash flows.

2020 performance

Net production
(Boepd)

59,116
–14%

Unit opex[1]
($/Boe)

15
–26%

EBITDA[1]
($ million)

551
–45%

Free cash flow breakeven[2]
($/Boe)

32
–35%

2021 outlook[3]

Net production range
(Boepd)

c.46,000 to 52,000

Operating expenditure
($ million)

c.265

Cash capital and abandonment expenditure
($ million)

c.120

Read more
See pages 04, 10 to 23 and 26 to 31

2020 statutory reporting metrics	**2020 $m**	2019 $m	Change %
Revenue and other operating income	**865.6**	1,646.5	(47.4)
Profit/(loss) before tax	**(566.0)**	(729.1)	22.4
Basic earnings/(loss) per share (cents)	**(37.8)**	(27.4)	(38.0)
Net cash flow from operating activities	**522.1**	962.3	(45.7)
Net assets/(liabilities)	**(64.6)**	559.1	(114.0)

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176
2 Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production
3 Based on the Group's existing portfolio

This Strategic report includes details of EnQuest's strategy, business model, capabilities, Values, performance and key risks. The Group's performance since the last Annual Report and current outlook is covered within the Chairman's statement, the Chief Executive's report, the Operating and Financial reviews and the Environmental, Social and Governance section.

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

Stakeholder engagement

Section 172 Statement

The Directors have always had regard for the potential impact of the Group's activities on its various stakeholders. In the majority of cases, information and feedback are provided throughout the year to the Directors by the Group's Executive Directors, senior and functional management and external advisers through a variety of Board reports, presentations and ad hoc correspondence. When appropriate, the Directors may advise further engagement is required, which could potentially be direct engagement by the relevant Director, and/or request additional information to ensure they have a full appreciation of a given situation prior to making any decisions. As such, the Directors are able to fulfil their duty to promote the long-term success of the Company for its stakeholders.

The Directors consider the items disclosed on the following page to be principal decisions on the basis of materiality of the incremental impact these are anticipated to have on a number of stakeholders and/or the Company.

Stakeholder	Why they are important	Direct Board-level engagement in 2020
A. Workforce	Our employee and contractor workforce is critical to the delivery of SAFE Results and EnQuest's success. As such, we are committed to ensuring EnQuest remains a great place to work. We have a strong set of Values that underpin our way of working and are dedicated to delivering SAFE Results. We provide a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy.	Employee forum; video messages; subject matter expert virtual attendance at Board and Board Committee meetings; physical and virtual safety leadership engagement visits, corporate purpose evolution; and interactive virtual town halls.
B. Investors	Our investors support management in the execution of EnQuest's business strategy, including the provision of capital for management to develop the business in order to deliver returns in a responsible manner.	Virtual meetings, calls and direct correspondence in relation to the Group's financial and operating performance, purpose statement, ESG philosophy, emissions reduction targets and the Group's proposed Remuneration Policy updates.
C. Partners	We collaborate with our joint venture partners, securing their support to deliver our asset plans. We value their contribution to the effective operational and financial management of our assets as we deliver on our business strategy.	None.
D. Host governments and regulators	EnQuest works closely with the host governments and regulators in the jurisdictions in which it operates. The Group complies with the necessary regulatory requirements, including those related to environmental matters such as reducing emissions, to ensure the Company maintains a positive reputation and licence to operate, enabling the effective delivery of the Group's plans for its existing portfolio and providing access to appropriate growth opportunities.	Video meetings and calls with the Oil and Gas Authority in the UK and Malaysian Petroleum Management in Malaysia.
E. Suppliers	EnQuest relies on its suppliers to provide specialist equipment and services, including skilled manpower, to assist in the delivery of SAFE Results.	None.
F. Communities	Making a positive contribution and appropriately managing our environmental impact in the communities in which we live and work around the world remains a key part of our activities. Our communities provide a potential source of employees, contractors and support services, and are important in supporting EnQuest's social licence to operate and maintaining a positive reputation.	None.
G. Customers	Our customers help facilitate the provision of hydrocarbon-related products to meet a variety of consumer demands and, as such, require a reliable supply of hydrocarbons to meet their needs.	None.

1 Based on the Group's existing portfolio at 1 January 2021

Other 2020 activities

See pages 16 and 17 for an overview of the UK's Transformation 2020 programme and pages 38 to 43 of the ESG section which detail the various people-related initiatives implemented during the year, including the employee survey results and our people's safety and wellbeing, particularly in relation to the asset integrity issues faced in 2020, combined with the dual impacts of EnQuest's response to COVID-19 (also see pages 08 to 09) and the UK Transformation programme.

See the Strategic report on pages 01 to 63 which explains the Company's performance and investment decisions during 2020.

Page 72 of the Corporate governance statement outlines how the Group engages with its investors.

The Group has regular engagement with its joint venture partners on day-to-day asset management and the execution of the longer-term asset strategy. This occurs through a combination of formal interactions, governed by joint operating agreements, and via informal engagement, including sharing of relevant industry experience, insights and best practice and/or developing performance improvement initiatives.

See pages 18 to 23 of the Strategic report for further details on operational and financial activities and decisions undertaken across our assets.

Joint venture partners are recognised as one of the Group's principal risks and uncertainties on page 57.

For further details, see pages 08 to 09 for our COVID-19 response which was aligned to government and regulatory advice, the Strategic report on pages 01 to 63 and the Group's Principal Risks and Uncertainties on pages 46 to 59, which outline EnQuest's strong relationships with governments and regulators. Pages 32, 33 and 63 of the ESG section and pages 110 to 113 of the Directors' Report outline further details on the Group's regulatory compliance activities.

The Group has continued its active and positive engagement with its suppliers through various supplier forums, performance reviews, ad hoc virtual meetings and industry events, including those related to the Group's future decommissioning programmes. The Company continues to monitor and report its supplier payment performance.

Please also see the Group's Principal Risks and Uncertainties on pages 46 to 59, a number of which are impacted by the Group's supplier relationships.

For further details on the Group's community engagement and environmental considerations, see pages 32, 33 and 45 of the ESG section, with the importance of maintaining a positive reputation outlined in the Group's Principal Risks and Uncertainties on page 50.

The Company has maintained strong relationships with its existing customers, including fuel oil blenders to whom it supplies Kraken oil as an unrefined constituent of IMO 2020 compliant low-sulphur bunker fuel. By selling directly to the fuel oil market, Kraken cargoes avoid refining-related emissions.

Principal decision and impacted stakeholders	Stakeholder impacts considered
Cessation of production decisions Impacted stakeholders: A, B, C, D, E, F and G	Separate cessation of production decisions were made for the Heather and Thistle assets in early 2020, however the stakeholders impacted and the associated considerations are the same Role reductions and change in day-to-day activities balanced by new decommissioning and/or other asset/office roles Lowering of production targets and reserves and resources balanced by re-focusing the Group's operations on the lowest cost assets; impacts on near-term cash flow and liquidity balanced with long-term reserve and resource maturation and development Decommissioning activities impacting production and cash flows Change in focus for supply chain, sector employment and lower UK North Sea CO_2e emissions Changing focus for and timing of supply chain activities Impacts on the local economy Potential cargo delivery interruption and impact on product blend
Business transformation and deferral of investment programmes Impacted stakeholders: A, B, C, D, E and F	Role reductions and change in day-to-day activities balanced by new decommissioning and/or other asset/office roles Lowering of production targets and reserves and resources; impacts on near-term cash flow and liquidity balanced with long-term reserve and resource maturation and development Decommissioning activities impacting production and cash flows Change in focus for supply chain and sector employment Changing focus for and timing of supply chain activities Impacts on the local economy
Environmental, Social and Governance ('ESG') strategy, and particularly committing to a 10% reduction in Scope 1 and 2 emissions over three years from a year-end 2020 baseline[1], with the achievement linked to reward Impacted stakeholders: A, B, C, D, E, F and G	Clear and transparent articulation of EnQuest's approach to ESG, demonstrating that its business model is the right one from a financial perspective, and that it makes a positive contribution to society by supporting government, regulators' and societies' goals and objectives in a prudent and economic manner, allowing informed decisions to be made by all stakeholders Commitment from the Group's workforce to ensure delivery of carbon reduction in the Group's existing operational portfolio Developing a carbon reduction strategy and incorporating a carbon price in our investment evaluations when considering potential acquisitions
Revised Company purpose Impacted stakeholders: A, B, C, D, E, F and G	Ensure there is a clear and transparent articulation of EnQuest's purpose that underpins delivery of the Group's strategy, goals and objectives to enable stakeholder groups to assess the alignment of interests and consequently impact on their likelihood of engagement with EnQuest Establishing workforce focus groups during the purpose development process to provide insight, review and challenge

Key performance indicators

A: HSEA
Group Lost Time Incident frequency rate[1]

−61.4%

2020	0.22
2019	0.57
2018	0.43

In occupational safety, Lost Time Incident ('LTI') performance was good, with many assets recording an LTI-free year.

D: EBITDA[2]
$ million

−45.3%

2020	550.6
2019	1,006.5
2018	716.3

Lower realised oil and gas prices, reflecting lower market prices, and production reduced EnQuest's EBITDA.

G: Net debt[2]
$ million

−9.4%

2020	1,279.7
2019	1,413.0
2018	1,774.5

Net debt decreased by 9.4% compared to 2019, with robust cash generation partially offset by interest on the Group's bonds being paid in kind. The Group has continued to voluntarily make early repayments of its senior credit facility.

B: Net production
Boepd

−13.8%

2020	59,116
2019	68,606
2018	55,447

Production was 13.8% lower than in 2019, primarily reflecting cessation of production at Heather/Broom, Thistle/Deveron and Alma/Galia, a safety-related shutdown at PM8/Seligi, absence of gas lift at the Dons and lower production at Magnus. Production from Kraken and Scolty/Crathes increased.

E: Cash generated by operations
$ million

−42.9%

2020	567.8
2019	994.6
2018	788.6

Cash generated by operations was 42.9% lower than in 2019, primarily reflecting lower EBITDA.

H: Net 2P reserves
MMboe

−11.3%

2020	189
2019	213
2018	245

Net 2P reserves decreased by 11.3% compared to 2019. During the year, the Group produced 10.1% of its year-end 2019 2P reserves base, with downward revisions at Thistle/Deveron and the Dons, reflecting cessation of production decisions at these fields, largely offset by other revisions and transfers from 2C resources.

C: Unit opex[2]
$/Boe

−26.2%

2020	15.2
2019	20.6
2018	23.0

Average unit operating costs were 26.2% lower than in 2019 ($20.6/Boe), primarily reflecting the Group's focus on cost control, including the decisions to cease production at Heather/Broom, Thistle/Deveron and Alma/Galia.

F: Cash capital[2] and abandonment expense
$ million

−30.4%

2020	173.0
2019	248.6
2018	230.2

Cash capital and abandonment expense was 30.4% lower than in 2019, primarily driven by a reduced drilling programme and lower prior period deferrals, partially offset by increased abandonment expense reflecting the cessation or production decisions at Heather/Broom, Thistle/Deveron and Alma/Galia.

I: Scope 1 and 2 emissions
tCO_2e

−11.2%

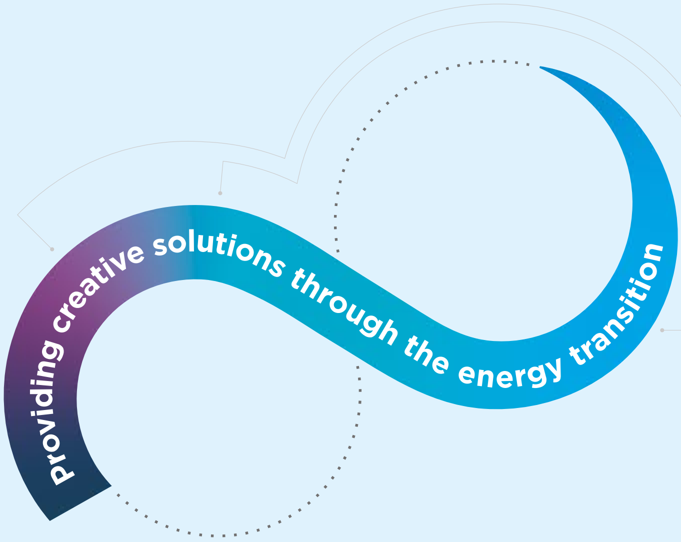
2020	1,342,765
2019	1,511,650
2018	1,802,435

Total CO_2e emissions were reduced by 11.2% compared to 2019 reflecting the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets.

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)
2 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176

Our purpose

Redefining our purpose



We strive to think differently

As an oil and gas company we are focused on **providing** the **energy** society needs.

We think **creatively** across our business… from operations… to contracts and procurement… to asset transactions.

We focus on SAFE Results and reducing our environmental impact as society **transitions** to a cleaner world.

Re-examining the 'why'

EnQuest has always recognised the importance of positively contributing to society, understanding that a well-defined purpose should be a key part of defining a company's strategy as well as part of its environmental, social and governance ('ESG') plan and policy. The Group had previously defined and articulated its corporate purpose as part of the year-end 2018 annual reporting process. However, feedback from stakeholders indicated a need for a simpler and more easily understandable Company purpose with which stakeholders could more readily engage. EnQuest therefore looked to re-examine and restate its core purpose.

A collaborative approach

Led by a steering committee drawn from the Company's global leadership teams and members of the Executive Committee, the group brainstormed ideas and language that best expressed the response to the question 'why is EnQuest here?' The output was subsequently shared with different focus groups drawn from every level of the business and every geographic region, who fed back their response to the suggested language and what it meant to them. Using this input, the steering committee revised the materials, which were once again reviewed by the focus groups. Feedback received from these groups was presented to the Board along with a single proposed statement that best encapsulated EnQuest. This statement was reviewed and challenged by the Board, before reaching agreement on 'Providing creative solutions through the energy transition'.

Embedding our purpose

Upon approval, work began immediately to embed this purpose throughout the organisation. The statement was launched at our first virtual Global Town Hall in September 2020 by CEO Amjad Bseisu, accompanied by a series of short films illustrating the Group's purpose in action. A two-stage series of 'purposeful leadership' training courses were offered to management globally, and we have captured and promoted examples of creative solutions at work in the business through a variety of internal channels.

Our purpose in action

One example was the challenge offered by a group of engineers working with the Kraken asset on increasing the upper flow limit of the production flexible flow lines during well tests. By increasing the limit and without compromising safety or asset integrity, EnQuest can avoid the deferral of c.20kbbls of oil per year. In Malaysia, safety officers on PM8/Seligi successfully moved the location of the helicopter landing area to prevent the costly relocation of one of the platform's cranes, whose boom rest was infringing the safety zone.

Creative solutions are not simply related to engineering at EnQuest. Our Supply Chain team implemented a number of creative commercial models that focused on value driven reward and accelerated business activity.

A purposeful future

Providing creative solutions is what EnQuest focuses on across all its operations. This approach informs the Group on how to lower emissions from its existing asset base, as it looks to achieve a targeted 10% reduction over a three-year period. Through harnessing the creative energy from all its staff, offshore and onshore, technical specialists and generalists alike, the Group will deliver world class decommissioning, safely and at the lowest possible cost, while continuing to drive the lowest possible emissions. EnQuest is keen to play an integral part in the energy transition and the new purpose statement will inform decision making on its daily operations, at all its assets, in each and every region in which it operates.

EnQuest Values

These Are What Connect Us

Our Values

Our Values embody everything the Company stands for and our Company purpose is intrinsically linked with our Values.

Safety sits at the core of everything we do as we aim for SAFE Results with no harm to our people and respect for the environment. We conduct our business and our relationships with respect and openness, ensuring a diverse range of ideas are shared and considered. We work collaboratively to achieve exceptional results, driving a focused business to achieve success, always pursuing growth and learning opportunities to unlock our full potential as individuals, teams and the Company as a whole.

Protecting our people

People are our most important asset

Oil and gas is recognised as a key industry. As such it was vital that EnQuest moved swiftly to keep its people safe to ensure operations could continue.

3

'COVID choppers' available in the UK

7

Manned UK facilities with testing capabilities available onsite

Responding to the challenges of COVID-19

A multi-discipline, Group-wide COVID-19 support group was established to share information, coordinate efforts and follow best practice and government and industry policy in the developing crisis. The Group developed information and processes for employees and contractors aligned with the prevailing expert advice and level of risk, covering pre-mobilisation and mobilisation to EnQuest's sites and any onsite response to possible COVID-19 cases, including:

- Issuing Letters of Authority to enable personnel to travel for work in the UK and Malaysia whilst strict lockdown/movement control order measures were in place;
- Adhering to new Malaysian government regulations with respect to quarantining and swab testing of personnel prior to offshore mobilisation and post de-mobilisation, and more recently further COVID-19 testing protocols;
- Implementing a testing regime for all staff and contractors on every EnQuest asset in the UK, and subsequently point of care testing at all its facilities in the North Sea and Shetland Islands, so that any employee can be tested at each of those locations; and
- Establishing and adopting protocols, in collaboration with Public Health Scotland, Oil and Gas UK ('OGUK') and UK helicopter operators, for any required return of personnel from offshore facilities back onshore. The Group was one of the first participants in a shared 'COVID chopper' scheme with other industry operators and helicopter transport providers in the North Sea.

Resilience planning was implemented to mitigate the impact of any COVID-19 cases on the assets, particularly for personnel in critical roles. EnQuest altered work programmes to focus on safety-critical activities, reducing personnel levels across all its assets, avoiding multiple cabin occupancy as far as practicable and introducing social distancing and hand sanitisation measures in every facility.

EnQuest also worked closely with the UK oil and gas industry as an active participant in the OGUK Pandemic Steering Group.

The Company participated in the Testing subgroup to share best practice and learnings, worked to develop new guidance around safety practices for offshore workers and to clarify with the Scottish Government and health agencies the changes in rules and regulations as they applied to key workers in the oil and gas industry throughout the year. Indeed, in early 2021 EnQuest introduced further segregation associated with flights to and from Sumburgh airport and the mandatory wearing of face coverings outside of cabins and in communal areas for the duration of the time offshore.

Our offices

During the global pandemic, EnQuest also adapted to the needs of onshore staff. Very swiftly, we moved to remote working for many of our employees. In all locations, employees were offered practical support and equipment in setting up 'home offices', with our people embracing technology solutions to ensure they remained connected to colleagues.

A number of surveys were undertaken so the leadership teams could understand how our people were adapting to remote working and identify other support measures that could be put in place.

Employees were given free access to a third-party mobile application and access to fitness and exercise classes and competitions to help with their physical and mental wellbeing as they adapted to new ways of working and living, while flexible working arrangements were encouraged.

Risk assessments and corresponding protocols were also put in place to enable individuals to return to part-time office working if they wished to do so, subject to relevant and legal government guidelines.

In the UK and Malaysia, studies have been undertaken on attitudes to returning to work in our offices, and EnQuest is continuing to make preparations for that eventuality, adapting to meet the wishes and expectations of our workforce, today and in the future.

Focused on SAFE Results

> We have emerged from the rigours of 2020 both fitter and leaner and are poised to take advantage of the inevitable opportunities the sector will offer up.

Martin Houston
Chairman

Overview
2020 has been a year of enormous challenges for all of us. The COVID-19 pandemic caused an evisceration of global oil demand which in turn triggered an oil price collapse, which touched c.$9/bbl in April 2020. This, and the ensuing global economic crisis, required a rapid and profound response from EnQuest on many fronts. I am proud that we reacted quickly and decisively to ensure the safety of our people, whilst at the same time transforming the Company.

Given the prevailing economics, we needed to cease production from a number of our North Sea assets. This allowed us to lower our cost base and re-focus the organisation onto the highest value assets, allowing the Company to generate enough free cash flow to maintain sufficient liquidity and to further reduce its debt. We are a fitter and leaner Company and we have entered 2021 in a better position than we began 2020.

While these changes were necessary, it was difficult to take these decisions knowing they would lead to a significant reduction in the size of our UK workforce. However, our people continued to demonstrate the highest levels of commitment, embracing the new COVID-related processes and procedures to keep themselves and their colleagues safe and our assets operational. I'd like to take this opportunity to sincerely thank everyone for all of their efforts and hard work this year.

The combination of events in 2020 also contributed to an increase in the demands of our stakeholders and regulators around a number of issues that impact our Company. These include lowering our carbon footprint and increasing the diversity of our workforce and our Board. Both of these have been priorities for the Board this year and whilst I am pleased with progress, we still have much to do.

A refreshed purpose
Early in 2020, the Group embarked on a process to refresh its purpose, with the aims of strengthening and simplifying it for all our stakeholders. I like what has been produced. It recognises our contribution to the world in which we operate and is intimately linked with our Values. Our mature asset business model requires us to think differently and to be creative right across our business – from operations, to contracts and procurement, to asset transactions, and how we create a great working environment for our most important asset, our people. It also recognises that we must play our part in the wider, multi-decade energy transition with emissions reductions and decarbonisation as a core focus area for participants in the oil and gas industry.

Committed to getting safety and asset integrity right
At EnQuest, the safety of our people and assets remains our number one priority. Whilst day-to-day health and safety performance improved throughout 2020, this was overshadowed by a number of asset integrity issues.

In Malaysia, a detached riser at the Seligi Alpha platform, which provides gas lift and injection to the Seligi Bravo platform, resulted in a release of gas and a subsequent fire which initiated an automatic emergency shutdown of the PM8/Seligi field. A full investigation was instigated to understand the root cause of the detachment, identifying a micro internal crack which in combination with fatigue due to cyclic loading, caused premature failure. At the Sullom Voe Terminal, we have witnessed a number of issues around pipeline integrity since taking over operatorship. These incidents, combined with the small fire in one of the compressor modules at Heather in 2019, have led us to review our approach to asset integrity through a Group-wide review supported by independent parties. Through this, we will review in detail the integrity management system across the Company and at an asset level to identify strengths and opportunities to improve the way we manage our major accident hazards from a people, process and plant perspective.

Lowering our carbon footprint
We take our environmental responsibilities seriously and have set a target of reducing absolute Scope 1 and 2 emissions from our existing portfolio of assets by 10% over a three-year period from the start of 2021. We have linked this target to reward as a key performance metric in the Group's long-term incentive scheme for Executive Directors and applicable employees. We view our role as actively reducing emissions across assets and transitioning them ultimately through to decommissioning. Our goal as a Board is to be as ambitious as we can in setting decarbonisation targets, whilst balancing the economic realities of operating late life assets.

Becoming more diverse
Diversity is a key focus area for the Group. We recognise that delivering exceptional performance is more likely if we include differing perspectives to enhance our knowledge and improve decision making. This is as true at the Board level as it is through the organisation. Following the Board changes outlined below, we currently have 22% female Board representation, while our management team is working hard on new initiatives in this area with a strong desire to make EnQuest a more diverse and inclusive Company, reflecting the demographics in which we operate. This will not be easy, but we are fully committed to the task.

Governing well
It is important that we continue to strengthen our governance framework. For many years, we have had a Code of Conduct that sets out the behaviour which the organisation expects of its Directors, managers and employees. Our Code of Conduct also extends to our expectations from our suppliers, contractors, agents and partners. We fully comply with the UK Corporate Governance Code and have a robust risk management framework which enables us to identify and mitigate principal and emerging risks.

Board and Committee evolution
Environmental, Social and Governance ('ESG') considerations continue to grow in importance for all companies. To reflect the Board's commitment to ESG matters, we agreed to strengthen the remits of the current Board-level Committees to ensure that our ESG performance is aligned with EnQuest's purpose and appropriately responds to the expectations of our stakeholders. You can read more on these changes in the Governance and Nomination Committee's report in the governance section of this Annual Report and Accounts.

We also had a number of Board changes through the year. In March 2020, Howard Paver succeeded Helmut Langanger as our Senior Independent Director ('SID'), with Helmut stepping down from the Board after serving for ten years, and in May 2020, he succeeded Laurie Fitch as the Chair of the Remuneration and Social Responsibility Committee. In December, Laurie decided to step down from the Board upon expiry of her letter of appointment on 8 January 2021. On behalf of the Board, I would like to thank Helmut for his unstinting support to the Company. With his comprehensive technical knowledge and various Board Committee memberships, Helmut played a significant role in the development of EnQuest PLC. Similarly, I would like to thank Laurie most sincerely on behalf of the Board for her valuable contribution during her time with EnQuest. In particular, her work with the Employee Forum and on the broad ESG agenda across the Company has been extremely helpful.

In November, the Board appointed Farina Khan, formerly chief financial officer of PETRONAS Chemical Group Berhad, as a Non-Executive Director. On joining the Board, Farina became a member of the Audit Committee and the Safety, Climate and Risk Committee. In early 2021, Farina also became a member of the Remuneration and Social Responsibility Committee.

In February 2021, Liv Monica Stubholt was appointed to the Board and joined the Audit Committee and the Safety, Climate and Risk Committee. Liv Monica is a corporate lawyer and has extensive experience in the energy industry and across public policy and governance following a career in both the public and private sectors. I am delighted Farina and Liv Monica have agreed to join our Board and I am looking forward to working with them both.

Looking ahead
Keeping our people safe and improving our asset integrity performance remains our priority. We will focus on what is in our control to deliver on the operational and financial targets we have set ourselves. Achieving our emissions reduction target will need our people to be creative, embracing different ideas as we challenge our existing ways of working to identify and implement reductions.

Having transformed the business in 2020, we have made good progress on adding value through acquisitions in the first quarter of 2021. In February 2021, we agreed to acquire a non-operating interest in the producing Golden Eagle area in the UK North Sea which is expected to add material free cash flow which is sheltered by the Group's tax assets. It is also expected to add around 23 MMbbls of reserves and resources, with further infill well potential. The acquisition of an operating interest in Bressay, which completed in January 2021, provides further material 2C resources for future evaluation and development to those we already have at Magnus, Kraken and PM8/Seligi. We continue to look at acquisition opportunities, taking our time to find the right ones that fit our portfolio and capabilities at the right price. I am confident we are very well placed to succeed in what is undoubtedly a fast-changing world.

Martin Houston
Chairman

A transformed company

> Our quick and decisive actions in early 2020 have transformed us to a lower cost base and free cash flow breakeven.
>
> **Amjad Bseisu**
> Chief Executive

Overview

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

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

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

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

Operational performance

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

Kraken continued to perform well, delivering high production efficiency of 87% and gross production of 37,518 Bopd, above the top end of its guidance range. Overall subsurface and well performance was good and production optimisation activities continued through improved injector-producer well management. By the end of 2020, more than 40 MMbbls (gross) had been produced since first oil, a great achievement by the combined EnQuest and Bumi Armada team. Production at Magnus also remained robust, delivering 17,416 Boepd reflecting the contribution of the two new wells coming onstream in March, partially offset by gas compressor and seawater lift pump system availability. Production at PM8/Seligi was lower than the prior year reflecting the impact of a detached riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform.

Production vs 2019
Boepd

−14%

EBITDA vs 2019
$ million

−45%

Free cash flow breakeven[1] vs 2019
$/Boe

−35%

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

This resulted in a release of gas which initiated an automatic emergency shutdown of the PM8/Seligi field. The Group's safety systems and emergency response procedures were successfully implemented, with all personnel on board mustered safely within minutes. Following an initial investigation and safety assessment, partial operations were able to be recommenced within two days, although production remained low throughout the fourth quarter.

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

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

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

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

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

Environmental, Social and Governance
Environmental
Emissions performance is an area of great importance to EnQuest as a responsible operator of oil and gas assets through the multi-decade energy transition, aiming to extend production lives safely, enhance cash flow profiles and reduce costs and emissions on mature assets, as society's reliance on hydrocarbons is reduced, thereby contributing towards the achievement of national emissions targets. The Group's absolute Scope 1 and 2 emissions were 11.2% lower in 2020 compared to 2019, primarily reflecting the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets. The Group has also set itself a challenging target to deliver a further reduction in Scope 1 and 2 emissions of c.10% over the next three years from its

Scope 1 and 2 greenhouse gas emissions vs 2019
tonnes CO_2 equivalent

−11%

Group Lost Time Incident frequency[1] vs 2019

−61%

existing portfolio through the identification and implementation of economic emission reduction opportunities, with the achievement of this target linked to reward. Emission reduction is also part of the acquisition review process, with a carbon price built into economic evaluation. The Group continues to optimise sales of Kraken cargoes directly to the shipping fuel market, avoiding emissions related to refining and helping reduce sulphur emissions in accordance with the IMO 2020 regulations (see the Environment section on pages 34 to 37 for more information).

Social – Health and safety

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

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

Social – People

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

Social – Communities

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

1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)

> Looking forward, EnQuest is well placed to succeed in a changing world.
>
> **Amjad Bseisu**
> Chief Executive

2021 performance and outlook

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

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

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

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

Longer-term development

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

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

Amjad Bseisu
Chief Executive

Transforming our business

As many countries entered lockdown in March 2020 in an attempt to mitigate the impact of the global pandemic, EnQuest faced a triple threat: COVID-19, the corresponding global economic crisis and a collapse in the oil price.

A re-focused UK organisation
EnQuest moved swiftly to become resilient and succeed in a low-oil price environment, restructuring and transforming its business in response to these challenges. These were not decisions the Board and senior management took lightly, understanding there would be differing implications for a number of its stakeholders, primarily its employees, contractors and joint venture partners.

Transformation 2020
The crisis meant that after a decade of continuous production, EnQuest's original assets, including Heather and Thistle/Deveron, entered the decommissioning phase of their life-cycle. With these decisions, alongside the previous decision to cease production at the Alma/Galia fields, a reorganisation was required to match the Group's activity set. The programme to accomplish this was entitled Transformation 2020 ('T2020').

The Group took the decision to reorganise its UK North Sea business into three directorates: Upstream; Midstream; and Decommissioning, see pages 19 to 22 for further details, to ensure each of these directorates focus on the most appropriate activities that deliver operational excellence and SAFE Results at each of its assets.

An open, fair and transparent process
With the changing operational footprint of the Group, support functions were also reviewed. Given the scale of change, with the number of employee and contractor roles in the UK reduced by approximately 40%, EnQuest did not apply for relief under the UK government's 'furlough scheme'. Instead, the UK workforce underwent an eight-week open and transparent collective consultation process to ensure all employees were treated fairly and with respect. This consultation process included the appointment of employee representatives to work with management to ensure the proposed changes did not compromise safety and to minimise the impact on the Group's people and operations. All employees at EnQuest were given the opportunity to nominate themselves for relevant roles within the new organisation structure and where possible, employees were redeployed to other assets or brought into office-based roles onshore. Employee representative feedback was positive regarding the high level of engagement, which enabled them to contribute to and improve the process.

Ensuring safe and continuous operations
In support of these changes and to ensure seamless business continuity, a comprehensive Management of Change ('MOC') programme was introduced across the UK business alongside a thorough review of our Business Management System ('BMS'). Importantly, asset and functional employees were appointed as MOC leads to work with their teams to construct the MOCs, ensuring high levels of engagement and thoroughness through the process. This positive and collaborative engagement supported a successful implementation programme. More than 150 MOC actions were successfully closed out and signed off in September, and the BMS review facilitated the removal of more than a thousand surplus documents. A post-implementation monitoring phase for the project was established, with reviews undertaken between November 2020 and January 2021, ensuring satisfactory alignment with the North Sea assurance and audit plan.

The successful conclusion of the T2020 programme has made EnQuest not only more resilient but also ready to succeed in a changing world, with unit operating costs and free cash flow breakeven[1] for the Group significantly reduced by 26.2% and 35.2%, respectively, from 2019.

–26%
Unit opex ($/Boe)

–35%
Free cash flow breakeven ($/Boe)[1]

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

Becoming a low-cost operator

Transformation 2020

Reorganisation completed
- T2020 followed decisions to progress CoP at the Heather, Thistle and the Dons assets
- Created three UK operating directorates supported by functional teams:
  - Upstream: Magnus, Kraken, GKA, Scolty/Crathes and Alba
  - Midstream: Sullom Voe Terminal and pipelines
  - Decommissioning: Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons

Enables directorates to deliver operational excellence and SAFE Results
- Upstream: Safely drive exceptional performance from reservoir to point of sale, providing the foundation for the Group to grow in any oil price environment
- Midstream: Preserve top quartile service delivery through high-quality people, safely optimising service costs, developing offerings to retain and win new business
- Decommissioning: Focus on delivering world class decommissioning, safely, at the lowest possible cost

Operating review

> A strong Kraken performance, reflecting improved FPSO uptime and good subsurface and well performance, continued to drive production in the Upstream business.

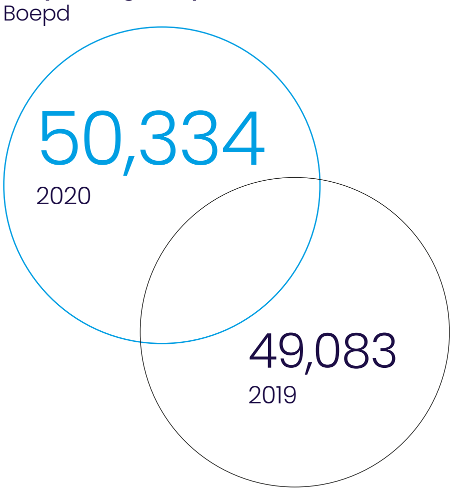
Bob Davenport
Managing Director – North Sea

Our operations

EnQuest's portfolio is currently focused on maturing and underdeveloped assets in the UK and Malaysia which offer organic growth opportunities. We have a strong track record of improving the performance and extending the economic lives of assets within our portfolio. Our capabilities have delivered material growth in production and reserves since the Company's creation in 2010.

UK Upstream operations[1]

Daily average net production:
Boepd



2020 performance summary

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

Magnus

2020 performance summary

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

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

2021 performance and outlook

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

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

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

Kraken

2020 performance summary

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

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

1 Includes Magnus, Kraken, Scolty/Crathes, the Greater Kittiwake Area and Alba

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

Due to its low sulphur content, the Group is able to optimise Kraken cargo sales into the shipping fuel market with Kraken oil a key component of IMO 2020 compliant low-sulphur fuel oil. As such, the Group benefits from strong pricing in the market and avoids refining-related emissions (see page 36).

2021 performance and outlook

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

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

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

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

Other Upstream assets

2020 performance summary

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

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

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

2021 performance and outlook

Aggregate production to the end of February was 3,821 Boepd.

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

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

UK Midstream operations[1]

2020 performance summary

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

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

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

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

2021 performance and outlook

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

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

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

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

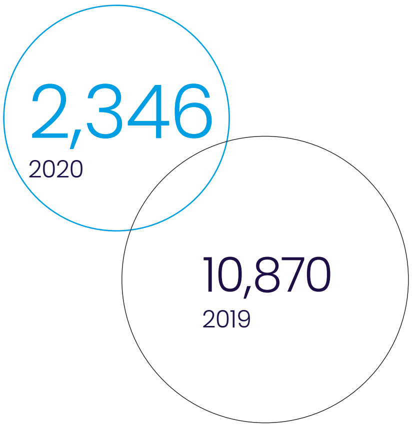
The strategic importance and geographical positioning of SVT has enabled EnQuest to participate in Project Orion, an initiative being developed by the Shetland Islands Council and the Oil and Gas Technology Centre aiming to deliver a clean, sustainable energy future for Shetland and the UK.

1 Includes the Sullom Voe Terminal, the Ninian Pipeline System and the Northern Leg Gas Pipeline

100%
SVT service availability

UK Decommissioning[1]

Daily average net production:
Boepd



2020 performance summary

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

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

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

2021 performance and outlook

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

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

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

1 Includes Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons

Malaysia operations

Daily average net production:
Boepd

6,436[1]
2020

8,653[1]
2019

Note:
1 Working interest. 2020 entitlement: 4,394 Boepd; 2019 entitlement: 5,812 Boepd

2020 performance summary

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

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

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

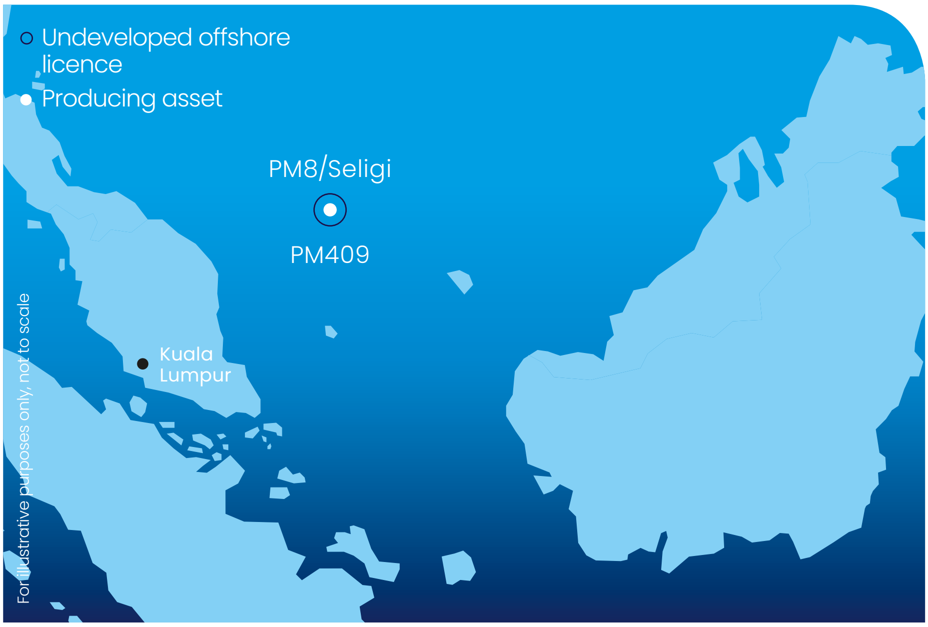
2021 performance and outlook

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

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

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

> Our focus for 2021 is the safe return of full operations at PM8/Seligi as soon as possible.
>
> **Richard Hall**
> Managing Director, Malaysia



Reserves and resources

EnQuest oil and gas reserves and resources

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

Notes:
1 Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis
2 Proven and probable reserves and contingent resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data
3 The Group's proven and probable reserves profiles have been audited by a recognised Competent Person in accordance with the definitions set out under the 2018 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers
4 All UKCS volumes are presented pre-SVT value adjustment
5 Accelerated cessation of production at Thistle/Deveron and the Dons
6 Technical revisions and transfers from 2C resources at Kraken, Magnus and PM8/Seligi
7 Correction of export to sales volumes
8 The above proven and probable reserves include c.6 MMboe that will be consumed as fuel gas on Magnus
9 Contingent resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis
10 Additional contingent resources from PM409
11 Kraken, Magnus and PM8/Seligi opportunity maturation
12 Acquisition of 40.81% interest in Bressay agreed in July 2020 (completed on 20 January 2021)
13 Rounding may apply

Hydrocarbon assets

EnQuest's asset base as at 31 December 2020[1]

Licence	Block(s)	Working interest (%)	Name	Decommissioning obligation (%)
UK North Sea Upstream production and development				
P193	211/7a & 211/12a	100.0[2]	Magnus	30.0[3]
P1077	9/2b	70.5	Kraken & Kraken North	As per working interests
P1107/P1617	21/8a, 21/12c & 21/13a	50.0	Scolty/Crathes	As per working interests
P238	21/18a, 21/19a & 21/19b	50.0 50.0 50.0 100.0	Kittiwake Mallard Grouse & Gadwall Eagle[4]	25.0 30.9 As per working interests n/a
P073	21/12a	50.0	Goosander	As per working interests
P213[5]	16/26a	8.0	Alba	As per working interests
UK North Sea Decommissioning				
P242	2/5a	n/a	Heather	37.5
P242/P902	2/5a & 2/4a	63.0	Broom	63.0
P475	211/19s	n/a	Thistle	6.1[6]
P236	211/18a	n/a	Thistle/Deveron	6.1[6]
P236	211/18c	n/a	Don SW & Conrie	60.0
P236/P1200	211/18b & 211/13b	n/a	West Don	78.6
P2137	211/18e & 211/19c	n/a	Ythan	60.0
P1765/P1825	30/24c & 30/25c, 30/24b	n/a	Alma/Galia	65.0
Other UK North Sea licences				
P90[5]	9/15a	33.3		n/a
P2334	211/18h	60.0		n/a
P2531[7]	21/18c	100.0		n/a
P2599[7]	211/12b	100.0		n/a
P2601[7]	211/18j, 211/23a & 211/24a	100.0		n/a
Malaysia production and development				
PM8/Seligi[8]	PM8 Extension	50.0	Seligi, North & South Raya, Lawang, Langat, Yong & Serudon	50.0
PM409 PSC	PM409	85.0	Kecubung, Tinggi Timur, Payung, NW Pinang, Tg. Pulai, Ophir	n/a

Notes:
1 On 20 January 2021, EnQuest concluded the acquisition of a 40.81% equity interest in the Bressay field. The field lies across the P234, P493, P920 and P977 licences covering blocks 3/28a, 3/28b, 3/27b, 9/2a and 9/3a
2 BP has a security over the Magnus asset (and related infrastructure assets) and is entitled to 37.5% of free cash flow from the assets subject to the terms of the transaction documents between BP and EnQuest
3 BP has retained the decommissioning liability in respect of the existing Magnus wells and infrastructure. EnQuest will pay BP additional deferred consideration by reference to 30% of BP's actual decommissioning costs on an after-tax basis, which EnQuest estimates will result in a payment equivalent to approximately 9% of the gross estimated decommissioning costs. The additional consideration payable is capped at the amount of cumulative positive cash flows received by EnQuest from Magnus, SVT and the associated infrastructure assets
4 On 25 February 2021, EnQuest announced it had signed an agreement to farm-down an 85% working interest in, and transfer operatorship of, the Eagle discovery. EnQuest will retain a 15% non-operating working interest
5 Non-operated
6 EnQuest is liable for the decommissioning costs associated with investment since it assumed operatorship, with the balance remaining with the former owners. Following the exercise of the Thistle decommissioning options in January and October 2018, EnQuest will undertake the management of the physical decommissioning of Thistle and Deveron and is liable to make payments to BP by reference to 7.5% of BP's decommissioning costs of Thistle and Deveron, which equates to 6.1% of the gross decommissioning costs
7 UK 32nd licence round award
8 Official reference PM-8 Extension PSC, commonly referred to elsewhere as PM8/Seligi

Financial review

“Strong operational performance and cash generation in a challenging year continued to allow the Group to make early voluntary repayments of the Group’s credit facility.

Jonathan Swinney
Chief Financial Officer

Financial overview

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

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

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

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

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

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

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

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

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

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

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

Note:
1 See reconciliation of net debt within the 'Glossary – Non-GAAP measures' starting on page 176

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

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

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

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

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

Income statement

Revenue

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

Note: For the reconciliation of realised oil prices see 'Glossary – Non-GAAP measures' starting on page 176

Cost of sales[1]

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

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176
2 Calculated on a working interest basis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176

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

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

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

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

Balance sheet

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

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

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

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

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

Trade and other receivables

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

Cash and net debt

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

Net debt comprises the following liabilities:

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

Provisions

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

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

Contingent consideration

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

Income tax

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

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

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

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

Financial risk management
The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. The disclosures in relation to financial risk management objectives and policies, including the policy for hedging, and the disclosures in relation to exposure to oil price, foreign currency and credit and liquidity risk, are included in note 27 of the financial statements.

Going concern disclosure
The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

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

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60.0/bbl from March to December 2021 and $58.0/bbl to the end of the first quarter 2022.

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

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

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

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

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

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

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

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

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

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2024. The viability assumptions are consistent with the going concern assessment, with the additional inclusion of an oil price of $58.0/bbl for the remainder of 2022, a longer term price of $60.0/bbl and refinancing of both the High Yield and Retail Bonds in October 2023. This assessment has taken into account the Group's financial position as at March 2021, the future projections and the Group's principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties, and the actions management are taking to mitigate these risks are outlined on pages 46 to 59. The period of three years is deemed appropriate as it is the time horizon across which management constructs a detailed plan against which business performance is measured, covering repayment of the Group's term loan and maturation of both its High Yield and Retail bonds. Notwithstanding the material uncertainty as described above in the going concern disclosure, based on the Group's projections, including refinancing of the current facility and of both the High Yield and Retail bonds, the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the period to March 2024.

The Base Case has further been stress tested to understand the impact on the Group's liquidity and financial position of reasonably possible changes in these risks and/or assumptions.

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

Oil price volatility

A decline in oil and gas prices would adversely affect the Group's operations and financial condition. To mitigate oil price volatility, the Directors have hedged approximately 5 MMbbls at an average floor price of around $55/bbl in 2021. The Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Access to funding

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

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

Notwithstanding the principal risks and uncertainties described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group can continue in operation and meet its commitments as they fall due over the viability period ending March 2024. Accordingly, the Directors therefore support this viability statement.

Jonathan Swinney
Chief Financial Officer

Environmental, Social and Governance

An accountable and responsible approach

For many years, EnQuest has had a clear, Board-approved approach to corporate responsibility, focusing on five key areas: health and safety; environment; people; communities; and business conduct. Similarly, the Group has a well-established governance framework that complies with the UK corporate governance code.

Since its inception, EnQuest has prioritised SAFE Results, with no harm to people and respect for the environment.

A changing world
In recent years, Environmental, Social and Governance ('ESG') factors have continued to grow in importance for companies, reflecting the renewed focus on company purpose, widespread concerns about climate change and the increasing importance of stakeholder considerations, combined with a renewed emphasis on long-term value enhancement.

As such, the Group undertook a review of the extensive ESG landscape, in order to identify those factors which are relevant and applicable to its purpose and business model, ensuring its approach was clear, appropriate and easily understood by its stakeholders.

As an oil and gas company, EnQuest recognises the need for a social licence to operate. As such, health and safety, climate change and emissions reductions are clearly areas of focus for the Company. EnQuest also recognises the importance of a diverse and inclusive culture in driving Company performance.

As such, the Group concluded its core ESG areas of focus are: health and safety, including asset integrity; the pursuit of emission reduction opportunities in order to contribute positively towards the achievement of national emissions targets; looking after our people and positively impacting the communities in which we operate; and upholding our robust risk management framework while acting with the highest standards of integrity in all that we do.

> EnQuest is an oil and gas company, focused on safely improving the operating, financial and environmental performance of assets for the benefit of its stakeholders.

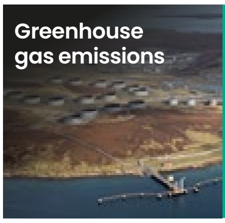
10%

Targeted Scope 1 and 2 emissions reduction by end 2023

EnQuest's ESG focus areas

Environmental

Greenhouse gas emissions



Read more
See page 34

- Committed to contributing positively towards the drive to net-zero
- Focused on absolute Scope 1 and 2 emission reductions in existing and acquired assets; three-year target linked to reward
- Incorporate carbon costs into investment evaluations

Social

People and communities

Read more
See page 38

- SAFE Results with no harm to our people and respect for the environment remains a key priority
- Recognising our people are critical to EnQuest's success
- Committed to operating with a strong culture and Values, in line with the Group's purpose
- Committed to improving workforce diversity and inclusion
- Aim to impact positively the communities in which we operate

Governance

Strong risk management and business conduct

Read more
See page 46

- Committed to operating with high standards of integrity in line with the Group's Code of Conduct
- Apply the Group's established risk management framework and operate within the Board-approved statement of risk appetite
- ESG performance is linked to reward

Group non-financial information statement

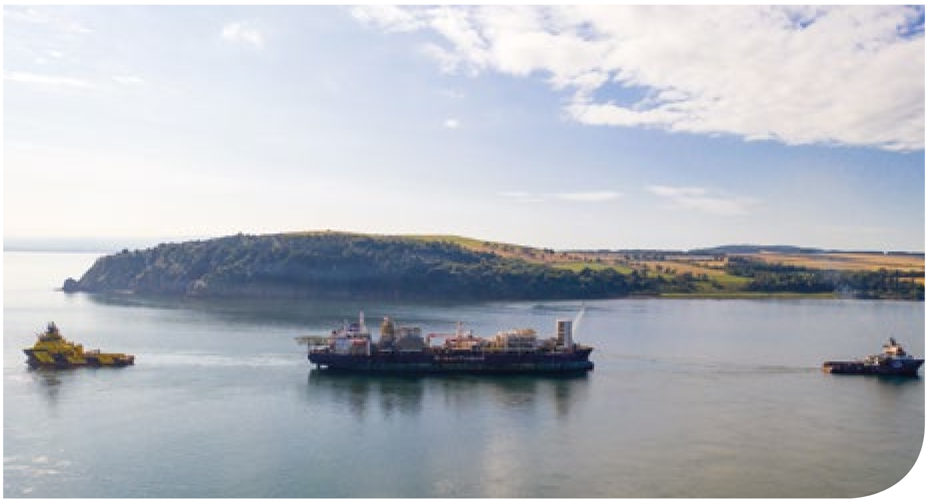
The following information is prepared in accordance with Section 414CB(1) of the Companies Act 2006. Further information on each of the areas set out below, including the Group's policies where relevant, can be found in the following pages of this section of the report. The Group's key performance indicators can be found on page 04.

Environment
- EnQuest's priority is delivering SAFE Results, with no harm to our people and respect for the environment
- Our Environmental Management System ensures our activities are conducted in such a way that we manage and mitigate our impact on the environment, which includes permitted hydrocarbon releases and discharges. Non-compliant releases and discharges from the Group's operations carry adverse reputational, financial and other consequences
- EnQuest recognises that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reducing the impact on climate change of carbon-related emissions. The Group has already reduced its absolute Scope 1 and 2 CO_2 equivalent emissions by around 26% since 2018 and aims to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023
- The Group continues to evolve its disclosures in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

Our people
- We are committed to ensuring that EnQuest is a great place to work
- Employee engagement and wellbeing were key focus areas throughout 2020 as the Group adjusted its ways of working in response to the COVID-19 pandemic and underwent a transformation programme. Training was provided to the Group's UK management and supervisory team to help them support their teams through this process
- EnQuest is committed to improving workforce diversity and inclusion ('D&I') and there was a renewed examination of the Company's approach during 2020, with revisions to the Group's existing D&I policy and the introduction of a Company-wide D&I strategy

Community
- EnQuest is fully committed to active community engagement programmes and encourages and supports charitable donations in the areas of improving health, education and welfare within the communities in which it works
- 2020 saw the Group provide additional support to local organisations in the UK in response to the COVID-19 pandemic
- The Group also supported a diverse range of charities and continued to be a key sponsor of a number of important local community programmes on Shetland
- In Malaysia, our teams continue to support an active programme of local community initiatives and charities alongside ongoing sponsorship programmes for internships and graduates
- In addition, EnQuest has partnered with the Institute of Chemical Engineers to offer accreditation of the Universiti Kebangsaan Malaysia Chemical and Process Engineering Programme

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



A responsible operator

Focused on reducing absolute Scope 1 and 2 emissions across our operations.

A strong culture and management framework
Environmental protection has been a core feature of EnQuest's business model since its inception, with the Group's priority being SAFE Results with no harm to people and respect for the environment. As an oil and gas company, we are focused on safely improving the operating, financial and environmental performance of mature and late-life assets. Climate change and emissions reductions are clear areas of focus for the Company. EnQuest welcomes the drive for increased governance and transparency in relation to climate change, continuing voluntarily to evolve its disclosures in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (see pages 61 to 63) and outlining its assessment of associated potential risks to the execution of its strategy within the risks and uncertainties section of this report (see page 46).

EnQuest's Environmental Management System ('EMS') ensures that activities are conducted in such a way that it manages and mitigates its impact on the environment. The EMS meets the requirements of OSPAR recommendation 2003/5, is aligned with the requirements of the International Organisation for Standardisation's environmental management system standard – ISO 14001 – and is independently verified every two years. In the UK, the Group publishes its annual Environmental Statement in line with the regulatory requirement under the OSPAR recommendation 2003/5 (see the Environmental, Social and Governance section on our website, www.enquest.com). These statements are an open and transparent representation of EnQuest's environmental performance across all its offshore operations. Environmental management and reporting in Malaysia to PETRONAS Malaysian Petroleum Management is addressed as part of the EnQuest Malaysia Management System and in line with ISO 14001.

For a number of years, the Group has been a member of Oil Spill Response Limited and the Petroleum Industry of Malaysia Mutual Aid Group and remains a supporter of Shetland Oil Terminal Environmental Advisory Group.

Lowering emissions through the energy transition
EnQuest recognises that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reducing the impact on climate change of carbon-related emissions. The Group's aim is to benefit all its stakeholders as a responsible operator of oil and gas assets through the expected multi-decade energy transition. Its aim is to extend safely production lives, enhance cash flow and reduce Scope 1 and Scope 2 emissions on its assets as reliance on hydrocarbons is reduced, thereby contributing towards the achievement of national emissions targets. The Group's focus on short-cycle investments and proven capabilities in improving operational performance, infill drilling and sub-sea tie-backs allows it to calibrate its investments to match the requirements of the market

> EnQuest aims to extend production lives, enhance cash flow and reduce Scope 1 and Scope 2 emissions.
>
> **Salman Malik**
> Vice-President Strategy, M&A and Corporate Finance

Environmental

Clear emission reduction targets linked to reward

Reduction in Scope 1 and 2 emissions

26%

vs 2018

Targeted Scope 1 and 2 emissions reduction 2021-2023

10%

related to oil and gas consumption, minimising the risk of stranded assets.

To balance all stakeholder interests, EnQuest believes a measured approach to absolute Scope 1 and 2 emissions reductions involving credible targets and the pursuit of economic emission reduction opportunities is appropriate.

Significant reductions achieved

The Group has already reduced its absolute Scope 1 and 2 CO_2 equivalent emissions by 26% since 2018, primarily through the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets.

In addition to reducing upstream-related emissions, the Group has also implemented an innovative economic emissions avoidance opportunity at Kraken by optimising sales of Kraken cargoes directly to the shipping fuel market. This initiative has two environmental benefits: it avoids emissions related to refining; and it also helps reduce sulphur emissions in accordance with the IMO 2020 regulations. The avoidance of emissions related to Kraken's crude is significant – with refining emissions for a typical North Sea crude estimated to be c.32 – 36kgCO_2e/bbl[1,2]. As such, emissions relating to Kraken oil by the time it reaches its end user compares favourably on a fully refined basis to even high-performing North Sea fields[3].

A clear target for the existing portfolio linked to reward

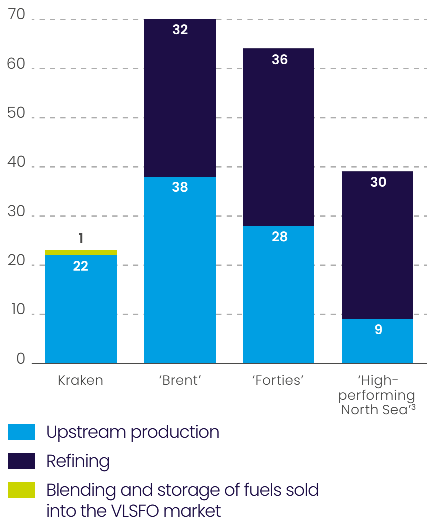
The Group aims to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023. This target has been included as a key performance metric in the Group's long-term incentive scheme for Executive Directors and applicable employees. To help achieve this target, a number of emission reduction opportunities have been identified, such as installing generator turbine water wash facilities and the use of high-efficiency particulate air filters on Magnus. However, these projects alone will not enable the Group to meet its target. It is recognised that improved environmental performance is a continuous process and as such, there are working groups dedicated to the identification and implementation of economically viable emissions savings across the Group's portfolio of assets.

Looking to the future

As majors and other operators continue to shift their focus from mature basins in a number of geographies, it is expected there will be further opportunities for the Company to access additional oil and gas resources. However, time and careful consideration will be taken to find the right opportunities, assessing them against a number of criteria, including carbon intensity and absolute emission levels.

Integrated emissions

kgCO_2e/bbl



> The Group has developed robust emission reduction targets and remains committed to playing a unique role within the energy transition.

Salman Malik
Vice President Strategy, M&A and Corporate Finance

There will be a clear emission reduction plan for any such asset for which EnQuest assumes operatorship, relative to the carbon footprint in the hands of the seller, and the Group will factor in an appropriate associated carbon price into the acquisition economics, even in markets where no carbon trading or pricing mechanism exists. EnQuest is committed to targeting assets where it believes it has an advantage in reducing emissions and reducing costs. The Group can make a positive contribution towards the future of North Sea oil and gas through doing its part in ensuring that each asset is in the right hands.

This positive contribution extends into the decommissioning phase of an asset's life-cycle. During this phase, wells will need to be plugged and abandoned, while the production and processing facilities, and any relevant infrastructure will need to be removed. Given the extent of this work, it will necessarily take place over an extended period of time and require careful project management. EnQuest's UK Decommissioning directorate will oversee the safe and efficient execution of these work programmes and is committed to delivering them in a responsible manner, which includes minimising emissions and maximising the recycle and reuse of recovered materials. The UK Decommissioning directorate continues to work with the supply chain, industry participants and decommissioning workgroups to identify creative ways, such as alternative power generation options, in which emissions associated with decommissioning activities can be kept to a minimum.

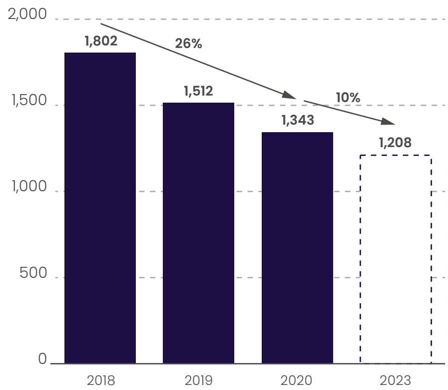
Other opportunities continue to be explored, with EnQuest being an active participant in the Energy Hub, an initiative being developed by the Shetland Islands Council and the Oil and Gas Technology Centre ('OGTC'), which aims to deliver a clean, sustainable energy future for Shetland and the UK. Additional areas of focus are looking at whether Kraken oil can be used as an alternative energy source and SVT power supply options. In Malaysia the Group continues to voluntarily limit emissions below the regulatory limit.

The Group continues to engage with entities such as Oil and Gas UK, the OGTC and the Oil and Gas Authority, to understand better how it can contribute further to the industry approach to net-zero, whilst remaining aligned with EnQuest's strategy.

Atmospheric emissions

The Group seeks to use energy efficiently within its facilities for extracting, processing and exporting oil and gas and continually looks to identify opportunities that may reduce emissions from its operations.

Scope 1 and 2 emissions
($ktCO_2e$)[4]



Notes:
1 $kgCO_2e/bbl$ = kilograms of CO_2 equivalent per produced barrel
2 Based on the University of Calgary PRELIM model recognised by California Air Resources Board, US Energy Tech. Laboratory, US DOE Office of Energy Efficiency and Renewable Energy, Carnegie Endowment for International Peace and the US Environmental Protection Agency
3 Source: EnQuest analysis of UK North Sea assets 2019 performance
4 $ktCO_2e$ = thousand tonnes CO_2 equivalent

Our people and communities

Social

Our priority is the safety of our people, our most important asset. We have a strong set of Values that underpin the way in which we work. We embrace diversity as we strive to be a truly inclusive organisation.

Health and safety

> SAFE Results is a key priority embedded within our culture and fundamental in delivering on our business objectives.
>
> **Mark Wilson**
> HSEA Director

The Group's licence to operate is underpinned by its safety performance. As such, the Group's priority is to deliver SAFE Results without compromising standards in order to meet other business objectives. To achieve this, the business is managed in accordance with the Group-wide Health, Safety, Environment and Assurance ('HSEA') policy, the key components of which can be found on the Group's website, www.enquest.com, under Environmental, Social and Governance.

Culture

Safety is at the heart of EnQuest's Values and in 2020, an independent safety review was undertaken to analyse the safety culture within EnQuest, with the report providing positive feedback on the progress of cultural development, outlining a strong commitment to safety throughout EnQuest, with well-motivated and informed people supported by robust processes.

The Group continues to learn from both leading and lagging data through the development of a learning culture, building further resilience into its HSEA systems and processes. Throughout a period of uncertainty due to COVID-19 and a Group transformation programme that involved a reorganisation of the UK North Sea business into three directorates and a reduction in employee and contractor roles of c.40% following the decisions to cease production at the Heather and Thistle Platforms, the focus has been on: the delivery of SAFE behaviours aligned to four key pillars of standards (following rules and procedures), awareness (understanding the hazards and controls), fairness (adopting the correct behaviours) and engagement (communicating effectively); and ensuring that the collective actions of the workforce contribute to delivering SAFE Results, adjusting actions and behaviours accordingly to suit the situation. A number of activities have further enhanced the EnQuest health and safety culture, namely:

- Implementing sustained assurance arrangements for the reorganisation, with a focus on the prevention of major accident hazards ('MAH') via a process of planned implementation and post-change monitoring, in accordance with regulatory good practice;
- Positively contributed to the industry organisation Oil and Gas UK ('OGUK') in support of the industry pandemic steering group, including the chairing of two workgroups with a focus on the prevention of hydrocarbon releases across the industry;
- Exceeded the target for site safety-leadership visits for both physical and virtual engagement. Leadership engagement continued to be an important part of the Group's safety programme, particularly given the uncertainty and potential impact COVID-19 and the Group's transformation could have had on HSEA performance;
- Received the Petronas Bronze Award for Health, Safety, Security and Environment ('HSSE') performance in Malaysia based upon sustained HSSE performance from both a leading and lagging indicator perspective; and
- Alignment across the Group of HSEA key performance indicators and continual improvement activities driving a consistent and measurable approach to HSEA performance, supported by a number of sharing and learning events held between Malaysia and the UK.

During 2020, the Group highlighted the emphasis it places on maintaining a strong safety culture through the presentation of two SAFE Results 'Values awards' at its Global Town Hall event.

Our people and communities continued

Health

The Group's approach to COVID-19 was developed upon the principles of safety and welfare of people and security of supply. A series of control arrangements were developed during 2020, which included pre-mobilisation health screening and testing for all those mobilising to an EnQuest site, with proven mitigation measures in place in the event of a suspected case. As a result, a high level of resilience was witnessed, which allowed for the continuation of safe operations. See pages 08 to 09 for further information.

The wellbeing of the EnQuest workforce is an ongoing and key focus, with a number of initiatives successfully delivered, including: wellbeing communications from the wellbeing committee in the UK; a step challenge to focus on the physical health aspects of wellbeing; mental health awareness training; use of a third-party application to provide individual mental and physical health awareness; and virtual fitness training sessions via a dedicated coach.

Process safety

There has been a continued emphasis on reducing risk across assets in relation to the management of safety-critical repair orders. Positive progress has been made on leading metrics such as onsite leadership engagement, both physically and virtually, with particular attention paid to process safety performance in terms of preventing hydrocarbon releases.

- A proactive approach to HSEA systems has demonstrated the effectiveness of streamlining the investigation process and the importance of developing actions to prevent recurrence of HSE events;
- For those assets in a decommissioning phase and not processing hydrocarbons, asset integrity is being assured to deliver safe decommissioning activities whilst the management of safety-critical repair orders is being tailored to reflect the specific circumstances of each asset;
- In both Malaysia and the UK, regulator interaction continued in an open and transparent manner to ensure that issues requiring attention have been raised in an approach that drives collaboration; and
- Reportable hydrocarbon releases across UK operated assets decreased from 11 in 2019 to four in 2020, with those in Malaysia decreasing from five in 2019 to two in 2020.

In Malaysia, a fire on Seligi Alpha was categorised as a tier one major event by the regulators. A full investigation, supported by independent external specialists, was instigated to understand the root cause of the riser detachment, identifying an internal micro crack which in combination with fatigue due to cyclic loading, caused premature failure. This is a newly discovered cause and EnQuest is working with the Malaysian regulatory body, Petronas MPM, to ensure the risk is better understood and to develop new inspection protocols for risers. At the Sullom Voe Terminal, we have witnessed a number of issues around pipeline integrity and resultant leaks since taking over operatorship. These incidents, combined with the small fire in one of the compressor modules at Heather in 2019, led to a Company-wide asset integrity review, supported by independent parties, which will review in detail the integrity management system across the Company and at an asset level to identify strengths and opportunities to improve management of major accident hazards from a people, process and plant perspective.

Personal safety

Despite the challenges and uncertainties of 2020, combined with the age of EnQuest's assets, the Group's Lost Time Incident ('LTI') performance improved, achieving a number of notable milestones across its asset base.

- Group LTI frequency[1] of 0.22: Malaysia recorded a frequency rate of zero and the North Sea of 0.35 against a UKCS benchmark LTI frequency of 1.28; and
- Our teams at Kittiwake and PM8/Seligi recorded 15 and ten years LTI free, respectively, while the Thistle, Heather, Alma/Galia, the Dons assets and Sullom Voe Terminal in the UK North Sea, all recorded a LTI-free year.

1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)

“

At EnQuest, we expect to have an inclusive culture, where everyone can be themselves, express their views and offer their opinions. Opening up the creativity in our Company will help strengthen us, adapt and grow.

Janice Mair
Director People, Culture & Diversity

Our people

A connected workforce
Effective employee engagement remains a key priority for EnQuest. As the global COVID-19 pandemic comprehensively changed the way we worked and interacted with our colleagues, our onshore workforce moved online and we adapted our structured programme of engagement, including town halls, business briefings, village halls and other employee-led groups, such as the Global Employee Forum, to an exclusively virtual environment. Our workforce across the Company adapted well to these changes, proving we could be effective and productive through these new ways of working. We continued to use traditional electronic communications alongside our virtual engagements to ensure important information, such as the Group's evolving operational response and employee guidance on maintaining safe operations through the pandemic, was shared throughout the organisation (see pages 08 to 09 for our response to the COVID-19 pandemic). We introduced our own internal informal engagement channel, Yammer, enabling our workforce to create dedicated spaces to share best practice, recognise important milestones and individual contributions to business delivery, alongside promoting our enhanced employee wellbeing programmes. 2020 also saw further recognition of our employees' achievements, with the introduction of our first Global Recognition Awards, two of which focused on delivery of SAFE Results and two for demonstrating other Company Values.

A Group-wide employee survey with participation from over 70% of employees concluded in early 2020. The results were communicated to our teams during the first quarter of 2020, prompting a number of action plans to be developed. Although some of these plans were necessarily placed on hold, others were fully realised in the areas of remote working and employee wellbeing.

Between April and August, the Group undertook an extensive business transformation programme in response to the changing macro-environment (see pages 16 to 17 for more information). In the UK, a formal collective consultation process, involving employees and trade union representatives, was undertaken across the sites given the scale of the change. Dubai and Malaysia also saw a slight reduction in roles, alongside revisions to offshore working rotations in Malaysia. While changes such as these are difficult for all involved, positive feedback was received, highlighting the openness and transparency of this collaborative process.

During the third quarter, we revisited our Company purpose, incorporating ideas, reviews and challenges from across the organisation (see page 06).

Following the conclusion of the transformation programme in September, and in an effort to continue to build on the progress made from the earlier survey, a short 'pulse' survey was carried out to understand our people's views on the key areas of: support through organisational change; wellbeing; diversity and inclusion; recognition; and Company vision and strategy. Almost 80% of our employees participated in this survey and told us they feel their opinions are valued and respected, and they can be themselves at work. We recognise, however, that we still have work to do to embed the revised Company purpose and improve employee recognition and activities in these areas. The Group has undertaken a further comprehensive Group-wide employee survey in the first quarter of 2021. The results will be analysed and presented to the Board, and cascaded through the organisation with action plans to be developed focusing on driving improvement in the highlighted areas, and sharing good practice across the business.

Our people and communities continued

Voice of the workforce – the EnQuest Global Employee Forum
The EnQuest global employee forum, chaired by two Non-Executive Directors, met four times throughout 2020. Despite the challenges presented by COVID-19 and Transformation 2020, areas discussed and reviewed during the year included: flexible working arrangements; employee communications and recognition; women in leadership; mentoring programmes; environmental responsibility; and diversity.

Following feedback from employees, the Forum, in collaboration with the business, was instrumental in the development of a Manager Expectations document. The purpose of this document is to demonstrate EnQuest's commitment in supporting and encouraging employees to perform at their best. It sets out a consistent set of practical leadership principles for managers to demonstrate to achieve SAFE Results. This has been rolled out globally, with managers' and supervisors' performance being measured against these expectations.

A focus on wellbeing
The mental and physical welfare of all employees has been, and continues to be, a major focus for the business. Recognising the impact the business transformation had on our people, particularly at a time of a global pandemic, it was important to offer additional support to employees. We provided mental health and wellbeing awareness training, the provision of access to virtual GP services via our healthcare provider and a third-party digital platform offering tools and techniques to support wellbeing. Outplacement support was also available to those who left the business.

Using our internal social media channel Yammer as a major tool, a wide variety of events, challenges and competitions were offered throughout the year which all helped to bring people together in new ways.

These included:
- Team EnQuest Corporate Games Challenge (January and February 2020 only)
- Mental Health Awareness week
- Ongoing support and provision of resources for colleagues and their families relating to COVID-19 and the transformation process
- Blogs supporting health and wellbeing, as well as the challenges of working from home
- Practical support and equipment in setting up 'home offices', including ergonomic awareness, one-to-one health and fitness coaching, live virtual fitness classes and a series of talks sponsored by our fitness provider on topics ranging from nutrition to spinal care
- Promoting the mental health app and Employee Assistance Programme
- Promotion of a cycle-to-work scheme in the UK
- 'Step Count' Challenge in October and November to support mental and physical wellbeing during the winter months
- Participation in activities for the charity 'Movember'
- Ngopi coffee and tea virtual get-togethers with colleagues in Malaysia to support wellbeing

Continued growth and learning
Ahead of the transformation programme, all UK managers and supervisors were offered specific training on 'Leading through change' and 'Collective consultation awareness' to help them support their teams and ensure the programme was delivered professionally and consistently across the business. In addition, all managers and employees were invited to attend a virtual wellbeing awareness session to highlight the importance of taking care of their own wellbeing and supporting colleagues through this challenging period and thereafter.

As part of the launch of the new Company purpose, we recognised the importance of engaging with our managers and supervisors to embed this concept into the organisation. Virtual 'Purposeful leadership' development training was undertaken, providing all managers and supervisors with a 'tool-kit' to enhance their communication skills, and motivate and inspire their teams, and the wider business, in recognising how their role connects to our purpose and to continue delivering against it.

We have also continued our programme of job specific training throughout 2020 to maintain levels of skills and competence, particularly in relation to safety-critical roles.

To ensure the new UK structure is fit for purpose, a capability review was conducted in the final quarter of 2020 to identify and address any skills gaps and identify key talent to aid future succession planning. The output from this review will be a key driver for learning and development during 2021.

Diversity and inclusion

We are fully committed to improving workforce diversity and inclusion ('D&I'), and there was a renewed examination of the Company's approach during this period of intense change. In addition to including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams, we recently updated our D&I policy and developed a Company-wide D&I strategy. This strategy aims to build awareness by providing education and strengthening understanding throughout the workforce, ensuring EnQuest's working environment is inclusive and celebrates diversity as a positive contributor to performance.

Throughout 2020 and into the first quarter of 2021, we have continued to support International Women in Engineering Day and the UK's AXIS Network. We have also established an employee-led global community – the EnQlusion Network – to explore and promote a greater sense of connectedness and celebration of difference at EnQuest. The EnQlusion Network has already hosted a talk from the Association for Black and Minority Ethnic Engineers, of which EnQuest is a member, and continues to work on ways to develop a more diverse and inclusive workplace.

During 2021, enhanced diversity balance will continue to be a core theme. We are introducing Company-wide 'Conscious inclusion' training for managers and supervisors.

With D&I central to our ways of working, we are challenging our recruitment, employment and training policies and how they attract, retain and develop a wide range of talent in our organisation.

46%

Reduction in the mean gender pay gap since 2017

The goals are to establish improved representation and, importantly, demonstrate that viable strategies have been developed to achieve far greater diversity balance in EnQuest in the future.

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

Gender pay gap

We have seen improvements overall in our gender pay gap statistics in the previous reporting period, building on a narrowing of gaps since reporting commenced in 2017.

In the latest period there has been a slight reduction in the gap related to the average rate of total pay for women, down to c.21% (2019: c.23%), with a more significant reduction in the median total pay gap, which has been reduced to c.11% (2019: c.17%). This means that since 2017, the average pay gap has approximately halved, with the median pay gap reduced by around two-thirds.

The proportion of male and female employees awarded a bonus in the period is broadly level, and the focus will be to retain this parity. These improvements reflect ongoing efforts the Company has made to redress the imbalance in its gender pay gap figures.

We are committed to further narrowing the gender pay gap and continuing to provide equal pay for equal jobs. This will be achieved through a continued focus on D&I in all aspects of the business. In addition to a fair and balanced recruitment and promotion process and regular assessment of skills, appropriate action will be taken on the feedback received from the employee forum and the global employee engagement survey results, alongside formalising the diversity and inclusion strategy with a view to setting targets that will influence compensation in future years.

The Group's people and organisational strategy is to ensure that it has the right people, in the right roles, driving performance and delivering efficiencies as it continues to pursue its strategy. As such, we ensure our processes are open and transparent, providing equal opportunities for all. EnQuest will continue with this approach, recruiting individuals on merit and their suitability for the role.

Our people and communities continued

Making a positive contribution to our local communities remains a key part of our activities at EnQuest.
With the challenges brought about by the COVID-19 crisis, the importance of giving back to our communities has never been more urgent. We continued to build on the strong relationships we have established with a variety of charitable and educational organisations.

Our communities

UK
In the UK, EnQuest supported local communities through charitable donations, both financial and in kind, throughout the year including:

- Helping frontline care workers during the COVID-19 crisis by redeploying excess personal protective equipment from offshore to Shetland NHS and a local care home in Aberdeen
- Redeploying surplus-to-requirements frozen meals to an Aberdeenshire food bank to help those most in need
- Our UK offshore and Shetland HSE fundraising initiative raising a combined £103,000 in 2020, with a range of charities supported by this initiative including Lupus UK, Friends of the Neonatal Unit at Archie's Foundation and the Juvenile Diabetes Research Foundation International. In Shetland, staff and contractors at our Sullom Voe Terminal ('SVT') continued to support local charities with the funds raised in 2020 being donated to four charities including the Fair Isle Bird Observatory and Chillax, a Shetland-based youth group which provides support for mental health
- Raising £22,000 on behalf of the SVT owners through a separate charitable incentive scheme which triggers a donation pledged to local charities and worthy causes nominated by staff for every 30-day period of strong HSE performance at the terminal. The range of charities included the Royal National Lifeboat Institute, the Shetland Food Bank and Shetland Samaritans
- Providing practical and financial support to food banks and local charities at Christmas in Scotland through donations and sponsorship of Christmas hampers, presents, meals and online giving trees
- Fundraising for the men's physical and mental health charity 'Movember', with our people collecting donations totalling almost £16,000
- Donating two trailer-loaded firefighting monitors to the Scottish Fire and Rescue Service following a serious fire at a local Shetland hotel in July 2020, an incident at which off-duty EnQuest firefighters offered their services voluntarily and used similar equipment to help bring the blaze under control
- Supporting the 32nd consecutive year of awards made by the Trustees of the Sullom Voe Terminal Participants' Tenth Anniversary Education Trust, which was established to promote and encourage the education of Shetland residents who will be studying a discipline likely to contribute to the social or economic development of Shetland:
  - 13 educational awards each worth £2,000 were made for the academic year 2020/2021
  - Six of these recipients of scholarships in 2019/2020 are encouraged to apply for a second year if they are continuing to progress their education
  - One of the successful applicants this year will attend the terminal for paid summer work experience in 2021 under a special Sullom Voe Partnership Award

Malaysia
In Malaysia, we continued to support a very active programme of local community initiatives, charitable donations and educational sponsorship, including:

- Raising a total of £7,500 in charitable donations primarily through two initiatives: the 'matching funds' charity drive which, with funds provided by the Company, raised £6,400; and redeploying funds of £1,100 that would have been spent on hosting a physical town hall which unavoidably became a virtual event. The funds raised were given to the Rumah Titian Kaseh charity, a temporary settlement for vulnerable communities, the Good Samaritan Home in Klang, Selangor as well as the Kechara Soup Kitchen society, a non-religious, non-partisan, non-governmental organisation that distributes food, and basic medical aid and offers counselling to the homeless and urban poor of Malaysia
- Continued support of the Sungai Pergam Orang Asli Primary School in Terengganu focusing on a student bursary programme entitled 'Love My School'. EnQuest Malaysia has supported the programme since June 2019, providing 70 students with funds to pay for school meals and learning essentials
- Fully sponsoring the extension of the canteen building for Sungai Pergam Orang Asli Primary School. This provides a multi-purpose hall for all school events and programmes
- Selecting 11 local university students for internship placements in a variety of disciplines, ranging from Operations to Finance and HR, as part of our graduate recruitment process
- Partnering with the Institute of Chemical Engineers ('IChemE') to offer accreditation of the Universiti Kebangsaan Malaysia ('UKM') Chemical and Process Engineering Programme from 2020 until 2024
- Doubling the awards made in 2020 by EnQuest and The Amjad and Suha Bseisu Foundation from two to four undergraduate students in chemical, mechanical and petroleum engineering from University Malaya ('UM') and Universiti Teknologi Malaysia ('UTM')

Company-wide fundraising
£'000

>150

Robust risk management framework

Risks and uncertainties

Management of risks and uncertainties
Consistent with the Company's purpose, the Board has articulated EnQuest's strategic vision to be the operator of choice for maturing and underdeveloped hydrocarbon assets. EnQuest is focused on delivering on its targets, driving future growth and managing its capital structure and liquidity.

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

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

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

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

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus. The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of the business. The Group Risk Register, along with an assurance mapping and controls review exercise; a risk report (focused on identifying and mitigating the most critical and emerging risks through a systematic analysis of the Company's business, its industry and the global risk environment); and a continuous improvement plan is periodically reviewed by the Board (with senior management) to ensure that key issues are being adequately identified and actively managed. In addition, the Group's Safety, Climate and Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth (for further information, please see the Safety, Climate and Risk Committee report on pages 105 to 106.

As part of its strategic, business planning and risk processes, the Group considers how a number of macroeconomic themes may influence its principal risks. These are factors of which the Company should be cognisant when developing its strategy. They include, for example, long-term supply and demand trends, developments in technology, demographics, the financial and physical risks associated with climate change and how markets and the regulatory environment may respond, and the decommissioning of infrastructure in the UK North Sea and other mature basins. These themes are relevant to the Group's assessments across a number of its principal risks. The Group will continue to monitor these themes and the relevant developing policy environment at an international and national level, adapting its strategy accordingly. For example, while climate change is now a discrete, standalone risk within the Group's 'Risk Library', EnQuest remains conscious of the potential for a number of aspects of climate change to amplify certain principal risks over time (e.g. in relation to access to capital markets – see 'Financial' risk on page 54 – and oil price – see 'Oil and gas prices' risk on page 52). The Group is also conscious that as an operator of mature producing assets with limited appetite for exploration, it has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets. This flexibility also ensures the Group has some inherent mitigation against the potential impact of 'stranded assets'.

As part of its evolution of the Group's RMF, the Safety, Climate and Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 19 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below).

The Board, supported by the Audit Committee and the Safety, Climate and Risk Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2020 to the date of this report and carried out a robust assessment of the Company's emerging and principal risks and the procedures in place to identify and mitigate these risks. The Board confirms that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Near-term and emerging risks

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

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

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

Risk

Climate change

The Group recognises that climate change concerns and related regulatory developments could impact a number of the Group's principal risks, such as oil price, financial, reputational and fiscal and government take risks, which are disclosed later in this report.

Appetite

EnQuest recognises that the oil and gas industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reduce the impact of carbon-related emissions on climate change, and is committed to contributing positively towards the drive to net-zero.

Mitigation

Mitigations against the Group's principal risks potentially impacted by climate change are reported later in this report.

The Group endeavours to reduce emissions through improving operational performance, minimising flaring and venting where possible, and applying appropriate and economic improvement initiatives, noting the ability to reduce carbon emissions will be constrained by the original design of our later-life assets.

EnQuest has reported on all of the greenhouse gas emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (see pages 112 to 113 for more information).

The Group has committed to a 10% reduction in Scope 1 and 2 emissions over three years, from a year-end 2020 baseline, with the achievement linked to reward. A working group, which reports to the Safety, Climate and Risk Committee, has been established to identify and implement economically viable emissions savings opportunities across the Group's portfolio of assets.

During 2020, the Group developed a clear ESG strategy, which included a focus on emissions reductions.

The Group's focus on short-cycle investments drives an inherent mitigation against the potential impact of 'stranded assets'.

Robust risk management framework continued

Risk	Appetite		Mitigation	
COVID-19 As a responsible operator, EnQuest continues to monitor the evolving situation and consequent risks with regard to the COVID-19 pandemic, recognising it could impact a number of the Group's principal risks, such as human resources and oil price, which are disclosed later in the key business risks section of this report. At the time of publication of EnQuest's full-year results, the Group's day-to-day operations continue without being materially affected.	EnQuest's employee and contractor workforce are critical to the delivery of SAFE Results and EnQuest's success, and the Group has a very low tolerance for operational risks to its production.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence. The Group recognises that considerable exposure to price risk is inherent to its business.	The Group continues to work with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk (see pages 08 to 09 for more information on the Group's response to COVID-19).	See 'Oil and gas price' risk on page 52 for more information on how the Group mitigates against price risk.

Brexit

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

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Key business risks
The Group's principal risks (identified from the 'Risk Library') are those which could prevent the business from executing its strategy and creating value for shareholders or lead to a significant loss of reputation. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

Cognisant of the Group's purpose and strategy, the Board is satisfied that the Group's risk management system works effectively in assessing and managing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group.

Set out on the following pages are:
- the principal risks and mitigations;
- an estimate of the potential impact and likelihood of occurrence after the mitigation actions, along with how these have changed in the past year; and
- an articulation of the Group's risk appetite for each of these principal risks (see page 04 for an explanation of the KPI symbols).

Amongst these, the key risks the Group currently faces are materially lower oil prices for an extended period due to any potential macroeconomic impact of COVID-19 (see 'Oil and gas prices' risk on page 52), which may impact our ability to refinance debt and/or execute growth opportunities, and/or a materially lower than expected production performance for a prolonged period (see 'Production' risk on page 51 and 'Subsurface risk and reserves replacement' on page 57).

Risk

Health, Safety and Environment ('HSE')

Oil and gas development, production and exploration activities are by their very nature complex with HSE risks covering many areas, including major accident hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental impacts, including those associated with climate change.

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 Medium)

There has been no material change in the potential impact or likelihood of this risk. The Group has a strong, open and transparent reporting culture and monitors both leading and lagging indicators. However, in September, there was a high-potential incident on the Seligi Alpha platform resulting in the shutdown of production. An extensive investigation has been undertaken to determine root causes and implement actions to reduce risk of any re-occurrence. In addition, a Company-wide asset integrity review, supported by independent parties, has commenced. The Group's overall record on HSE remains robust.

Their remains a risk to the availability of competent people given the potential impacts of COVID-19.

Related KPIs – A, B, C, D, E, F, G, I

Appetite

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

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

Mitigation

The Group maintains, in conjunction with its core contractors, a comprehensive programme of assurance activities and has undertaken a series of deep dives into the Risk Bowties that have demonstrated the robustness of the management process and identified opportunities for improvement. A Group aligned HSE continual improvement programme is in place, promoting a culture of engagement and transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk continues to be a core responsibility of the Safety, Climate and Risk Committee. During 2020, the Group continued to focus on control of major accident hazards and 'SAFE Behaviours'.

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

EnQuest's HSE Policy is now fully integrated across its operated sites and this has enabled an increased focus on HSE. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.

In 2020, an independent safety review was undertaken across the Group that reported positively on the Group's safety culture with a recognition of a strong commitment towards safety and robust processes in place. Given the importance of asset integrity, a Company-wide review team has been formed to look at integrity management arrangements at a Group, regional and asset level to drive improvements in 2021.

The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the level of risk.

Robust risk management framework continued

Risk

Reputation

The reputational and commercial exposures to a major offshore incident, including those related to an environmental incident, or non-compliance with applicable law and regulation and/or related climate change disclosures, are significant. Similarly, it is increasingly important EnQuest clearly articulates its approach to and benchmarks its performance against relevant and material ESG factors.

Potential impact
High (2019 High)

Likelihood
Low (2019 Low)

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

Related KPIs – A, C, D, E, G, H, I

Appetite

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

Mitigation

All activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors.

The Group requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements.

The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.

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

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

During 2020, the Group developed a clear ESG strategy, with a focus on health and safety (including asset integrity), emissions reductions, looking after its employees, positively impacting the communities in which the Group operates, upholding a robust RMF and acting with high standards of integrity.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Risk

Production

The Group's production is critical to its success and is subject to a variety of risks including: subsurface uncertainties; operating in a mature field environment; potential for significant unexpected shutdowns; and unplanned expenditure (particularly where remediation may be dependent on suitable weather conditions offshore).

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

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

Longer-term production is threatened if low oil prices or prolonged field shutdowns and/or underperformance requiring high-cost remediation bring forward decommissioning timelines.

Potential impact
High (2019 High)

Likelihood
Medium (2019 Low)

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

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

Related KPIs – B, C, D, E, G, H, I

Appetite

Since production efficiency and meeting production targets are core to our business and the Group seeks to maintain a high degree of operational control over production assets in its portfolio, EnQuest has a very low tolerance for operational risks to its production (or the support systems that underpin production).

Mitigation

The Group's programme of asset integrity and assurance activities provide leading indicators of significant potential issues, which may result in unplanned shutdowns, or which may in other respects have the potential to undermine asset availability and uptime. The Group continually assesses the condition of its assets and operates extensive maintenance and inspection programmes designed to minimise the risk of unplanned shutdowns and expenditure.

The Group monitors both leading and lagging KPIs in relation to its maintenance activities and liaises closely with its downstream operators to minimise pipeline and terminal production impacts.

Production efficiency is continually monitored with losses being identified and remedial and improvement opportunities undertaken as required. A continual, rigorous cost focus is also maintained.

Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal reviews. The Group's forecasts of production are risked to reflect appropriate production uncertainties.

The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored and challenged by the Group and other terminal owners and users to ensure that operational integrity is maintained. Further, EnQuest has continued transforming the Sullom Voe Terminal, including lowering operating costs, to ensure it remains competitive and well placed to maximise its useful economic life and support the future of the North Sea.

The Group actively continues to explore the potential of alternative transport options and developing hubs that may provide both risk mitigation and cost savings.

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

Robust risk management framework continued

Risk

Oil and gas prices

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

Potential impact
High (2019 High)

Likelihood
High (2019 High)

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

The Group recognises that climate change concerns and related regulatory developments are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply. Further, oil and gas will remain an important part of the energy mix, especially in developing regions.

Related KPIs – B, D, E, F, G, H

Appetite

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

Mitigation

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

As an operator of mature producing assets with limited appetite for exploration, the Group has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets.

The Group monitors oil price sensitivity relative to its capital commitments and has a policy (see page 162) which allows hedging of its production. As at 24 March 2021, the Group had hedged approximately 5 MMbbls. This ensures that the Group will receive a minimum oil price for its production.

In order to develop its resources, the Group needs to be able to fund the required investment. The Group will therefore regularly review and implement suitable policies to hedge against the possible negative impact of changes in oil prices, while remaining within the limits set by its term loan and revolving credit facility.

The Group has an established in-house trading and marketing function to enable it to enhance its ability to mitigate the exposure to volatility in oil prices.

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

Risk

IT security and resilience

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

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 Low)

There has been no change to the potential impact. However, the likelihood has increased reflecting an increase in personnel working from home.

Related KPIs – A, B

Appetite

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

Mitigation

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

The Safety, Climate and Risk Committee undertook additional analyses of cyber-security risks in 2020. The Group has a dedicated cyber-security manager and work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2021.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe) D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million) G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Risk

Human resources

The Group's success continues to be dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. Industrial action across the sector, or the availability of competent people given the potential impacts of COVID-19, could also impact the operations of the Group.

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 High)

The impact is unchanged; the likelihood is lower due to the downturn in the industry.

Related KPIs – A, B, C, D, E, F, G

Appetite

As a low-cost, lean organisation, the Group relies on motivated and high-quality employees to achieve its targets and manage its risks.

The Group recognises that the benefits of a lean, flexible and diverse organisation requires creativity and agility to assure against the risk of skills shortages.

Mitigation

The Group has established an able and competent employee base to execute its principal activities. In addition, the Group seeks to maintain good relationships with its employees and contractor companies and regularly monitors the employment market to provide remuneration packages, bonus plans and long-term share-based incentive plans that incentivise performance and long-term commitment from employees to the Group.

The Group recognises that its people are critical to its success and so is continually evolving EnQuest's end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that EnQuest has the right person for the job and that appropriate training, support and development opportunities are provided, with feedback collated to drive continuous improvement whilst delivering SAFE Results. The culture of the Group is an area of ongoing focus and employee surveys and forums have been undertaken to understand employees' views on a number of key areas in order to develop appropriate action plans.

The Group also maintains market-competitive contracts with key suppliers to support the execution of work where the necessary skills do not exist within the Group's employee base.

The Group recognises that there is a gender pay gap within the organisation but that there is no issue with equal pay for the same tasks and also that fewer young people may join the industry due to climate change-related factors. EnQuest aims to attract the best talent, recognising the value and importance of diversity.

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

Following its introduction in 2019, the Group employee forum has continued to add to EnQuest's employee communication and engagement strategy, improving interaction between the workforce and the Board.

The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the prevailing level of risk.

Robust risk management framework continued

Risk

Financial

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

The outstanding amount on the Group's term loan and revolving credit facility at 31 December 2020 was $377.3 million (including payment in kind interest) which requires repayment or refinancing by October 2021. While the Board remains confident it will be able to complete a refinancing as part of the funding arrangements associated with the Golden Eagle area acquisition, significant reductions in the oil price or material reductions in production will likely have a material impact on the Group's ability to repay or refinance the loan facility in 2021. The Group's term loan and revolving credit facility also contains certain financial covenants (based on the ratio of indebtedness incurred under the term loan and revolving facility to EBITDA, finance charges to EBITDA and a requirement for liquidity testing). Prolonged low oil prices, cost increases, including those related to an environmental incident, and production delays or outages, could threaten the Group's liquidity and/or ability to comply with relevant covenants. Similar conditions could impact the Group's ability to refinance the bonds ahead of maturity in October 2023. Further information is contained in the Financial review, particularly within the going concern and viability disclosures on pages 30 and 31.

Potential impact
High (2019 High)

Likelihood
High (2019 High)

There is no change to the potential impact or likelihood, reflecting the continued economic uncertainty and potential impact of oil price fluctuations. The Group has made material progress in reducing its term loan facility ahead of schedule, and has voluntarily repaid early a further $25.0 million in January 2021. There is potential for the availability and cost of capital to increase and insurance availability to erode, as factors such as climate change and other ESG concerns and oil price volatility may reduce investors' and insurers' acceptable levels of oil and gas sector exposure, and the cost of emissions trading certificates may trend higher along with insurers' reluctance to provide surety bonds for decommissioning, thereby requiring the Group to fund decommissioning security through its balance sheet.

Related KPIs – B, C, F, G, H

Appetite

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

Mitigation

Debt reduction is a strategic priority. During 2020, the Group repaid a total of $100.0 million of the term facility, with the $65.0 million due in April 2021 voluntarily repaid early.

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

Ongoing compliance with the financial covenants under the Group's term loan and revolving credit facility is actively monitored and reviewed.

EnQuest generates operating cash inflow from the Group's producing assets. The Group reviews its cash flow requirements on an ongoing basis to ensure it has adequate resources for its needs.

The Group is continuing to enhance its financial position through maintaining a focus on controlling and reducing costs through supplier renegotiations, assessing counterparty credit risk, hedging and trading, cost-cutting and rationalisation.

Where costs are incurred by external service providers, the Group actively challenges operating costs. The Group also maintains a framework of internal controls.

The quick and decisive actions management took following the combined impacts of the COVID-19 pandemic, the oil price decline and resulting economic crisis in early 2020 have materially lowered the Group's free cash flow breakeven.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Risk

Fiscal risk and government take

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

Potential impact
High (2019 High)

Likelihood
Medium (2019 Medium)

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

Related KPIs – E, G

Appetite

The Group faces an uncertain macroeconomic and regulatory environment.

Due to the nature of such risks and their relative unpredictability, it must be tolerant of certain inherent exposure.

Mitigation

It is difficult for the Group to predict the timing or severity of such changes. However, through Oil & Gas UK and other industry associations, the Group engages with government and other appropriate organisations in order to keep abreast of expected and potential changes; the Group also takes an active role in making appropriate representations.

All business development or investment activities recognise potential tax implications and the Group maintains relevant internal tax expertise.

At an operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.

Risk

Project execution and delivery

The Group's success will be partially dependent upon the successful execution and delivery of potential future projects, including decommissioning in the UK, that are undertaken.

Potential impact
Medium (2019 Medium)

Likelihood
Low (2019 Low)

The potential impact and likelihood remain unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects and to manage its UK decommissioning projects over an extended period of time.

Related KPIs – B, D, E, F, G, H, I

Appetite

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

While the Group necessarily assumes significant risk when it sanctions a new project (for example, by incurring costs against oil price assumptions), or a decommissioning programme, it requires that risks to efficient project delivery are minimised.

Mitigation

The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place, notably the Capital Projects Delivery Process, to ensure that deadlines are met, costs are controlled and that design concepts and the Field Development Plan are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication. The Group's UK decommissioning programmes are managed by a dedicated directorate with an experienced team who are driven safely to deliver projects at the lowest possible cost and associated emissions.

The Group also engages third-party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. EnQuest ensures that responsibility for delivering time-critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations.

Robust risk management framework continued

Risk

Portfolio concentration

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

Potential impact
High (2019 High)

Likelihood
High (2019 High)

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

The decisions taken to accelerate cessation of production at a number of the Group's assets has further reduced the number of producing assets and so increased portfolio concentration in the near term.

During the year, the Group signed a sales and purchase agreement with Equinor to purchase a 40.81% operating interest in the Bressay oil field in the UK North Sea, with the transaction completing in January 2021. Furthermore, in February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area. Separately, a number of licence awards were granted to EnQuest during the 32nd Offshore licensing round.

The Group continues to assess acquisition growth opportunities with a view to improving its asset diversity over time.

Related KPIs – B, C, D, E

Appetite

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

Mitigation

This risk is mitigated in part through acquisitions. For all acquisitions, the Group uses a number of business development resources, both in the UK and internationally, to liaise with vendors/governments and evaluate and transact acquisitions. This includes performing extensive due diligence (using in-house and external personnel) and actively involving executive management in reviewing commercial, technical and other business risks together with mitigation measures.

The Group also constantly keeps its portfolio under rigorous review and, accordingly, actively considers the potential for making disposals and divesting, executing development projects, making international acquisitions, expanding hubs and potentially investing in gas assets or export capability where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash flow and strengthening the balance sheet. In February 2021, the Group announced it had signed an agreement to farm-down an 85% equity interest in and transfer operatorship of the Eagle discovery to Anasuria Hibiscus UK Limited. The transaction is subject to customary regulatory and third-party approvals.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Risk

Joint venture partners

Failure by joint venture parties to fund their obligations.

Dependence on other parties where the Group is non-operator.

Potential impact
Medium (2019 Medium)

Likelihood
Low (2019 Low)

There has been no material change in the potential impact. The likelihood has also been maintained reflecting the Group's current low exposure to capital-intensive projects requiring funding from third parties.

Related KPIs – C, D, E, F, G

Appetite

The Group requires partners of high integrity. It recognises that it must accept a degree of exposure to the credit worthiness of partners and evaluates this aspect carefully as part of every investment decision.

Mitigation

The Group operates regular cash call and billing arrangements with its co-venturers to mitigate the Group's credit exposure at any one point in time and keeps in regular dialogue with each of these parties to ensure payment. Risk of default is mitigated by joint operating agreements allowing the Group to take over any defaulting party's share in an operated asset and rigorous and continual assessment of the financial situation of partners.

The Group generally prefers to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets, taking account of the impact of any wider developments (e.g. 'Brexit').

Risk

Subsurface risk and reserves replacement

Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value.

Potential impact
High (2019 High)

Likelihood
Medium (2019 Medium)

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

Low oil prices or prolonged field shutdowns requiring high-cost remediation which accelerate cessation of production can potentially affect development of contingent and prospective resources and/or reserves certifications.

Related KPIs – B, C, D, E, F, G, H

Appetite

Reserves replacement is an element of the sustainability of the Group and its ability to grow. The Group has some tolerance for the assumption of risk in relation to the key activities required to deliver reserves growth, such as drilling and acquisitions.

Mitigation

The Group puts a strong emphasis on subsurface analysis and employs industry-leading professionals. The Group continues to recruit in a variety of technical positions which enables it to manage existing assets and evaluate the acquisition of new assets and licences.

All analysis is subject to internal and, where appropriate, external review and relevant stage gate processes. All reserves are currently externally reviewed by a Competent Person.

The Group has material reserves and resources at Magnus, Kraken and PM8/Seligi that it believes can primarily be accessed through low-cost sub-sea drilling and tie-backs to existing infrastructure. EnQuest continues to evaluate the substantial 2C resources at PM409 to identify future drilling prospects. PM409 is contiguous to the Group's existing PM8/Seligi PSC, providing low-cost tie-back opportunities to the Group's existing Seligi main production hub.

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

Robust risk management framework continued

Risk

Competition

The Group operates in a competitive environment across many areas, including the acquisition of oil and gas assets, the marketing of oil and gas, the procurement of oil and gas services and access to human resources.

Potential impact
High (2019 High)

Likelihood
High (2019 High)

The potential impact and likelihood have remained unchanged, with a number of competitors assessing the acquisition of available oil and gas assets and the rising potential for consolidation (e.g. through reverse mergers).

Related KPIs – C, D, E, F, H

Appetite

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

Mitigation

The Group has strong technical, commercial and business development capabilities to ensure that it is well positioned to identify and execute potential acquisition opportunities, utilising innovative structures as may be appropriate.

The Group maintains good relations with oil and gas service providers and constantly keeps the market under review. EnQuest has a dedicated marketing and trading group of experienced professionals responsible for maintaining relationships across relevant energy markets, thereby ensuring the Company achieves the highest possible value for its production.

A recent example of the marketing and trading group's capability has been moving Kraken from the crude oil market into fuel oil. In addition, the marketing and trading group is responsible for the Company's commodity price risk management activities in accordance with the Group's business strategy.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Risk

International business

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

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 Medium)

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

Related KPIs – A, D, E, F, G, H

Appetite

In light of its long-term growth strategy, the Group seeks to expand and diversify its production (geographically and in terms of quantum); as such, it is tolerant of assuming certain commercial risks which may accompany the opportunities it pursues.

However, such tolerance does not impair the Group's commitment to comply with legislative and regulatory requirements in the jurisdictions in which it operates. Opportunities should enhance net revenues and facilitate strengthening of the balance sheet.

Mitigation

Prior to entering a new country, EnQuest evaluates the host country to assess whether there is an adequate and established legal and political framework in place to protect and safeguard first its expatriate and local staff and, second, any investment within the country in question.

When evaluating international business risks, executive management reviews commercial, technical, ethical and other business risks, together with mitigation and how risks can be managed by the business on an ongoing basis.

EnQuest looks to employ suitably qualified host country staff and work with good-quality local advisers to ensure it complies with national legislation, business practices and cultural norms, while at all times ensuring that staff, contractors and advisers comply with EnQuest's business principles, including those on financial control, cost management, fraud and corruption.

Where appropriate, the risks may be mitigated by entering into a joint venture with partners with local knowledge and experience.

After country entry, EnQuest maintains a dialogue with local and regional government, particularly with those responsible for oil, energy and fiscal matters, and may obtain support from appropriate risk consultancies. When there is a significant change in the risk to people or assets within a country, the Group takes appropriate action to safeguard people and assets.

Business conduct

> We are committed to acting with high standards of integrity in all that we do, conducting our business in accordance with our Values and in compliance with applicable law.

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

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

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

As part of the Group's Risk Management Framework, the Board is supplied annually with an 'assurance map' that provides an insight into the status of the main sources of controls and assurance in respect of the Group's key risk areas (see pages 46 to 59 for further information on how the Group manages its key risk areas). Whilst this provides some formal assurance as to how the Group reinforces its requirements in respect of business conduct, the Board also recognises the importance of promoting the right culture within the Group and this remains an area of focus for the Group.

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

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

Further detail on EnQuest's corporate responsibility policies and activities, including the area of business conduct, is also available on the Environmental, Social and Governance section of EnQuest's website at www.enquest.com. This is updated as required during the year.

Task Force on Climate-related Financial Disclosures

The Group welcomes the initiative for increased governance and transparency in general, and specifically in relation to climate change. The Board recognises the increasing societal and investor focus on climate change, and the desire to understand its potential impacts on the oil and gas industry through improved disclosure, utilising mechanisms such as those proposed by the Task Force on Climate-related Financial Disclosures ('TCFD'). The table below provides information relevant to each of the four TCFD recommendations, and the Group will continue to evolve these disclosures over time in preparation of the mandatory reporting in 2021.

TCFD framework	EnQuest disclosures	Reference
Governance • Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	EnQuest's purpose is to provide creative solutions through the energy transition by being the operator of choice for maturing and underdeveloped hydrocarbon assets. The Board is focused on a strategy which recognises that hydrocarbons will remain a key element of the global energy mix for many years and through which the Group can pursue a business model which helps to fulfil energy demand as part of the transition to a sustainable lower-carbon world while reducing carbon emissions from its own business across Upstream, Midstream and Decommissioning operations where practicable and ensuring a robust risk management framework ('RMF') is in place. As set out in the risk management section below, climate-related issues feature within a number of the Group's principal risks and are prioritised and managed accordingly. In addition, climate change is recognised as a standalone risk area in its own right (see page 46). Reflecting the importance the Group places on evolving climate change-related matters, the RMF process is overseen by a dedicated sub-Committee of the Board. This sub-Committee is now the Safety, Climate and Risk Committee and its terms of reference have been amended to enable it to support the Board with increased oversight of de-carbonisation, including monitoring progress towards the Group's three-year emission reduction target and climate change-related risk matters. The Board and management keep appraised of the evolving risk landscape and its potential impacts on the Company's business. In doing so, they consult as appropriate with the Group's advisers and appropriate third-party institutions, including fund managers, investors and industry associations such as Oil & Gas UK. During 2020, the ESG steering group, comprising members of the Executive Committee and other appropriate managers, reviewed the Group's emissions performance, identified a number of initial emission reduction initiatives and proposed a discrete Group-wide target (see the Metrics and Targets section below). In support of this, a working group has been set up dedicated to the identification and implementation of economically viable emissions savings opportunities across the Group's portfolio of assets. This group will report to the Executive Committee and the Safety, Climate and Risk Committee on a regular basis.	Pages 46 to 59, 68 to 101, 105 to 106 and 109 to 113

Task Force on Climate-related Financial Disclosures continued

TCFD framework	EnQuest disclosures	Reference
Strategy • Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	EnQuest's business model is distinct from companies that have a material exploration component to their business and it is, therefore, less exposed to the much longer duration of exploration, discovery, development and production. EnQuest primarily acquires mature and underdeveloped assets from other industry participants and drives performance improvements, including emission reductions, through short-cycle, quick payback investments. EnQuest's UK Decommissioning directorate is responsible for the safe and efficient execution of the decommissioning work programmes and is committed to delivering them in a responsible manner, which also includes minimising emissions alongside maximising the recycle and reuse of recovered materials. As majors and other operators continue to shift their focus from mature basins such as the North Sea and Malaysia, there will be further opportunities for the Company to access additional resources. The Group is also engaged in various forums, such as Project Orion in the Shetland Islands, to ensure it remains aware of any emerging prospects that could provide cleaner energy to its asset base and so lower the Group's overall emissions. Long-term energy demand scenarios (such as the International Energy Agency's Sustainable Development Scenario and the Shell Sky Scenario, both of which are aggressive decarbonisation forecasts) forecast hydrocarbons to remain an important part of the energy mix for a considerable period. Notwithstanding this, EnQuest's business model will enable it to adapt to a rapidly changing external environment, as its short-cycle investments reduce the risk of 'stranded assets' within EnQuest's portfolio. In addition, during 2020 EnQuest transformed its business, focusing on its lowest cost assets which saw unit operating expenditures reduce to c.$15.2/Boe, further enhancing its ability to successfully operate in a low oil price environment. The Group considers as part of its strategic, business planning and risk processes, how a number of macroeconomic themes may influence its principal risks. The most material risk factor to EnQuest's business model is the oil price, and climate change is one of many potential influencing factors on the oil price. EnQuest's planning and investment decision processes cater for low oil price scenarios, and include a carbon cost associated with forecast emissions. Where new assets are acquired, there will be a clear emissions reduction plan for any such asset for which EnQuest assumes operatorship, relative to the carbon footprint in the hands of the seller, and the Group factors in an associated carbon price into the acquisition economics, even in markets where no carbon trading or pricing mechanism exists. In the short to medium term, EnQuest reviews the impact of different oil prices in its going concern and viability statements. Other financial risks of climate change considered include access to, and cost of, capital, insurance and decommissioning surety bonds as investors' and insurers' appetite for exposure to the oil and gas sector reduces. In addition, the cost of emissions trading allowances may trend higher. With respect to physical risks of climate change to the Group's business, the Group is aware of potential risks associated with rising sea levels, tidal impacts and extreme weather events which could cause damage and destruction to its ageing offshore assets, particularly as these events become more regular and extreme in nature, but considers these risks to be low given the Group's focus on asset integrity and the expected remaining life of these mature assets.	Pages 01 to 23, 30 to 37 and 52

TCFD framework	EnQuest disclosures	Reference
Risk Management • Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The Group has robust risk management and business planning processes that are overseen by the Board, the Safety, Climate and Risk Committee and the Executive Committee in order to identify, assess and manage climate-related risks. The Group's RMF is embedded in all levels of the organisation with asset, regional and functional risk registers aggregating to an enterprise risk register identifying relevant threats and how they are mitigated, whilst the adequacy and efficacy of controls in place are themselves also monitored. This integration enables the Group to quickly identify, escalate and appropriately manage emerging risks. The Safety, Climate and Risk Committee provides a forum for the Board to review selected individual risk areas in greater depth. Indeed, climate change is now categorised as a standalone risk area within the Group's 'Risk Library' allowing the application of EnQuest's RMF to underpin its approach in this important area. For each risk area, the Safety, Climate and Risk Committee reviews 'Risk Bowties' that identify risk causes and impacts and maps these to preventative and containment controls used to manage the risks to acceptable levels. Climate change-related issues are also considered within the context and review of a number of other risk areas.	Pages 46 to 59 and 105 to 106
Metrics and targets • Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets.	EnQuest has reported on all of the emission sources within its operational control, as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In the UK, EnQuest publishes its annual Environmental Statement in line with the regulatory requirement under the OSPAR recommendation 2003/5. These statements, which can be found in the Environmental, Social and Governance section on the Group's website www.enquest.com, are an open and transparent representation of the environmental performance across EnQuest's UK operations. The Group recognises that the ability to reduce carbon emissions is constrained by the original design of its later-life assets. However, the Board has approved a targeted 10% reduction in EnQuest's absolute Scope 1 and 2 emissions from its existing portfolio over three years, from a year-end 2020 baseline, with the achievement of this target linked to reward.	Pages 04, 10 to 15, 32 to 37, 82 to 101, 105 to 106 and 112 to 113

Stefan Ricketts
Company Secretary

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