Independent Auditor's Report

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

Our opinion on the financial statements

In our opinion:

- EnQuest PLC's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and IFRS as issued by the International Accounting Standards Board ('IASB');
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

EnQuest PLC's financial statements comprise:

Group	Parent company
Group Balance Sheet	Company Balance Sheet
Group Statement of Comprehensive Income	Company Statement of Changes in Equity
Group Statement of Changes in Equity	Notes 1 to 11 to the Company financial statements
Group Statement of Cash Flows	
Notes 1 to 31 to the Group financial statements	

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

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements which indicates that, due to oil price volatility, the Group could fail a quarterly liquidity covenant and in such circumstances would request a covenant waiver. The risk of not being able to obtain a waiver represents a material uncertainty. As stated in note 2, this material uncertainty may cast significant doubt on the Group's or the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how our audit responded to the risk relating to going concern:

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern;
- Our audit procedures have focused on management's estimation process including the key assumptions used in the Directors' assessment and cash flow model including oil prices, production profiles and future costs. We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom and EnQuest's covenant compliance;
- We considered whether management has exercised any bias in selecting their assumptions. We identified forecast oil prices as the key assumption in the going concern assessment. Management's forecasts took account of the market volatility observed in March 2020. In conjunction with EY Valuation specialists, we audited management's oil and gas price assumptions in their Base case and their plausible downside case. Our audit procedures included a comparison of management's price assumptions with those of market participants released since 9 March 2020 when significant price volatility was first observed. We also compared management's prices to the most recent Brent futures prices;
- We re-performed management's reverse stress testing over prices in response to the recent market volatility, to confirm their results. This included the reverse stress test on liquidity as well as the reverse stress test on the liquidity covenant;
- We ensured the forecasts for opex and capex incorporated in the model were consistent with the two revisions to the budget in response to the recent price volatility. We discussed the nature and drivers of the cost savings with financial and operational management and have verified these through review of the forecast costs that were included in the asset impairment model that we have audited. We also assessed historical forecasting accuracy through forecast versus actual analysis;

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- We ensured that production profiles used in the going concern model were in line with the production profiles audited as part of our impairment testing described above. We checked that the profiles and capex/opex reflected the announced shut-downs of assets. We compared management's production profiles with prior period forecasts, investigating any significant variances and corroborating the drivers of variances to our understanding obtained when performing other audit procedures including reserve estimation and impairment. We analysed management's operational response to COVID-19 as part of our consideration of COVID-19's potential impact on production;
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts;
- We tested the mathematical accuracy and integrity of the model;
- We tested the covenant calculations to ensure they had been calculated correctly in accordance with the revolving credit facility agreement;
- We agreed the available facilities and arrangements to underlying agreements and external confirmation from debt providers; and
- We reviewed the disclosures made in the Annual Report and Accounts as highlighted in the above section of our opinion covering going concern.

Key observations communicated to the Audit Committee

We reported to the 18 March 2020 meeting of the Audit Committee that our audit procedures were still ongoing in light of the recent market volatility and management's ongoing process to update their budgets. Subsequently we reported that we have audited the going concern model, where under both the Base case and downside case, the Group does not forecast any covenant breach or liquidity shortfall during the going concern period. We reported that management had appropriately updated their model to take account of oil price volatility and the two cost reduction programmes. We reported that management had performed appropriate reverse stress testing in light of current oil price volatility, which indicates that the risk of liquidity expiring in the going concern period is remote. We reported that we agree with the conclusion that, in light of current oil price volatility, the company could breach the quarterly liquidity covenant and that the risk of not being able to obtain a waiver for such a breach represents a material uncertainty. We have also concluded that management have made appropriate disclosures in the financial statements.

We draw attention to the viability statement on page 33, which indicates that an assumption to the statement of viability is that a waiver would be forthcoming for any potential covenant breach. The Directors consider that the material uncertainty referred to in respect of going concern may cast significant doubt over the future viability of the Group. Our opinion is not modified in respect of this matter.

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty related to going concern section, we have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on pages 44 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 44 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on pages 32 to 33 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on pages 32 to 33 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of Magnus contingent consideration • Impairment of tangible assets and goodwill
Audit scope	• We performed an audit of the complete financial information of the UK component (full scope) and audit procedures on the Malaysia component (specific scope) • Through our on-site work on full and specific scope entities in the UK and Malaysia we have covered 100% of Group's EBITDA, 100% of Group's revenue and 99% of Group's total assets
Materiality	• Overall Group materiality of $20.1 million which represents 2% of Business performance EBITDA

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Magnus contingent consideration of $657.3 million		Risk Direction: ↑
Refer to the Audit Committee Report (pages 64 to 70); Accounting policies (from page 116); and note 22 of the Annual Report and Accounts		
The acquisition of Magnus has resulted in the recognition of contingent consideration for both the initial 25% acquisition in 2017 and the subsequent 75% acquisition in 2018. The valuation of this contingent consideration is complex, involving significant judgements around future cash flows. These judgements include: oil prices; production profiles; discount rates; as well as the timing of the resulting cash flows. Given the value of the contingent consideration ($657 million at 31 December 2019) there is a risk that misstatement could lead to a material error. In addition to this, any change in value of the contingent consideration is recorded directly in the Group statement of comprehensive income. The risk was included with risk related to the acquisition accounting of the 25% stake (2017) and 75% stake (2018) in Magnus.	We documented our understanding and walked through EnQuest's process for valuing the contingent consideration. We tested the Magnus cash flow model for clerical accuracy by re-performing the calculation. The key inputs to EnQuest's cash flow model included oil price assumptions, production profiles, future capital and operating expenditures and discount rates. All assumptions included in the model are as at 31 December 2019. Our procedures included: • Oil Prices: We have analysed market participant price assumptions (including the views of banks, brokers and consultants) to determine our own range of commodity prices as at 31 December 2019. We have compared and benchmarked this to management's price assumptions and determined management's assumption to be within our reasonable range; • Production profiles, future capital and operating expenditures: EnQuest made their own estimates for these assumptions and used an external specialist to audit these estimates. We reviewed and challenged the work of management's external specialist by checking data inputs, challenging and verifying assumptions, and checking the application of the resulting estimates to the accounts. We evaluated the competence of internal specialists and the competence and objectivity of EnQuest's external specialist. We have met with the internal and external specialists to evaluate the appropriateness of their work and findings; and • We used our valuations specialists to calculate our own discount rates range to assist in our assessment of management's discount rate. The work was performed by the primary team.	We reported to the Audit Committee that the contingent consideration was materially correctly stated. We also reported that the assumptions related to oil prices were within our reasonable range and assumptions related to production profiles and future capital and operating expenses were reasonable. We communicated that the discount rate of 10% was at the top end of our reasonable range of 8–10%. We audited the associated disclosures and consider them to be reasonable.

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Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of tangible oil and gas assets and goodwill $637.5 million and $149.6 million, respectively		Risk direction: ↔
Refer to the Audit Committee Report (pages 64 to 70); Accounting policies (from page 116); and notes 10 and 11 of the Annual Report and Accounts		
Fluctuations in mid to long-term commodity prices and other judgemental areas such as reserves, production and cost profiles create potential indicators for impairment triggers. Accounting standards require management to assess whether indicators of impairment or impairment reversal exist. Where indicators exist, management must carry out an impairment test. In addition, accounting standards require an annual test of goodwill. As a result, all UK assets are reviewed as part of the annual goodwill impairment test. The risk remains the same when compared to the prior year.	We tested the completeness of indicators of impairment loss identified by management through assessment of changes in reserves, asset performance and market conditions. Where a formal impairment test was required, we tested the impairment model for clerical accuracy by re-performing the calculation and we audited management's assumptions and sensitivities. This included specifically the determination of cash generating units, oil prices, production profiles, capital and operating expenditure and discount rates. Our procedures included: • Oil Prices: We have analysed market participant price assumptions (including the views of banks, brokers and consultants) to determine our own range of commodity prices. We have compared and benchmarked this to management's price assumptions and determined management's assumption to be within our reasonable range; • Production profiles, future capital and operating expenditures: EnQuest's made their own estimates for these assumptions and used an external specialist to audit these estimates. We reviewed and challenged the work of management's external specialist by checking data inputs, challenging and verifying assumptions, and checking the application of the resulting estimates to the accounts. We evaluated the competence of internal specialists and the competence and objectivity of EnQuest's external specialist. We have met with the internal and external specialists to evaluate the appropriateness of their work and findings; and • Discount rates: We used our valuations specialists to calculate our own discount rate range to assist in our assessment of management's discount rate. In light of the potential impact of energy transition, we analysed the volume and value of reserves that are expected to be produced after 2030 and 2040 respectively. We have considered the IEA World Energy Outlook 'Sustained Development' forecast prices which aligns to the targets of the Paris Accord. The work was performed by the primary team with assistance from our Kuala Lumpur office (Malaysia). We carried out procedures to understand and walk through EnQuest's process for identifying impairment triggers and considered managements' assessment of indicators.	We reported to the Audit Committee that the impairment charge was materially correctly stated. As noted, the oil price assumptions were within the EY independent reasonable range and production profiles and future capital and operating expenditures were reasonable. We communicated that the discount rate of 10% was at the top end of our reasonable range of 8—10%. We did not identify any indication of management bias in the estimation process. We communicated that 22% and 3% of the recoverable amount of EnQuest's assets relate to reserves that are expected to be produced after 2030 and 2040, respectively. Consequently, we do not believe that EnQuest's 2P reserves, as well as associated tangible oil and gas properties, are significantly exposed to the risks of energy transition.

In the prior year, our auditor's report included a key audit matter in relation to going concern where we made an assessment whether going concern met the definition of a key audit matter, whether the appropriate disclosures had been made and discussed what we reported to the Audit Committee. Since we have concluded there is a material uncertainty in the current year, we have included a section in the auditor's report: 'Material uncertainty related to going concern' to discuss the material uncertainty that may cast significant doubt on the Group's or the parent company's ability to continue as a going concern.

The 'impact of estimation of the quantity of oil and gas reserves' was considered to be a Key Audit Matter in 2018 due to the significant audit effort required around the external information available in relation to EnQuest's Kraken joint venture partner's reserves estimate and how this differed from EnQuest's reserve estimate. This year's audit procedures required less effort and were completed through our impairment and Magnus contingent consideration procedures, hence this was not included as a Key Audit Matter.

In the prior year the 'complexity of the acquisition accounting for 75% of Magnus' was considered to be a Key Audit Matter. Since the acquisition was completed in 2018, the risk is no longer relevant. We do, however, consider the 'valuation of Magnus contingent consideration' linked to acquisition to be a Key Audit Matter in 2019 as discussed above.

Revenue recognition is a significant risk presumed by ISAs (UK). It is not included above, as EnQuest's revenue streams are largely routine in nature and do not involve significant judgement or use of significant estimates. Consequently, the auditing of revenue recognition did not have the greatest effect on our overall audit strategy, the allocation of resources in the audit or in directing the efforts of the engagement team.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements of the two reporting components of the Group, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected both components covering entities within Malaysia and the UK (North Sea and Corporate), which represent the principal business units within the Group.

Of the two components selected, we performed an audit of the complete financial information of the UK business unit (full scope component), which were selected based on their size or risk characteristics. For the Malaysian entities (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. We also audit the parent company in full scope and the remaining significant balances of the Group are in specific scope for audit procedures performed by the primary team.

There has been no change to our scope this year. Malaysia remained as specific scope as its contribution to Group Business performance EBITDA (the basis of materiality) remains much less significant than the UK component (2019: 10%, 2018: 10%) and there is no perceived heightened risk of material misstatement.

The reporting components where we performed audit procedures accounted for 100% (2018: 100%) of the Group's EBITDA, 100% (2018: 89%) of the Group's revenue and 99% (2018: 99%) of the Group's total assets. For the current year, the full scope component contributed 90% (2018: 90%) of the Group's EBITDA, 94% (2018: 89%) of the Group's revenue and 96% (2018: 96%) of the Group's total assets. The specific scope component contributed 10% (2018: 10%) of the Group's EBITDA, 6% (2018: 11%) of the Group's revenue and 3% (2018: 3%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components audited by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the North Sea full scope component (which represents 90% of Group EBITDA), parent company and remaining significant (non-Malaysia) balances, audit procedures were performed directly by the primary audit team. The primary team consists of the EY London and Aberdeen offices led by the Senior Statutory Auditor. For the specific scope component (Malaysia), where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team (including the Senior Statutory Auditor) interacted regularly with the Malaysia team during various stages of the audit, including planning of the audit approach, discussing any issues arising from their work and reviewing key working papers. The primary team were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

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Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Based on our professional judgement, we determined materiality for the Group to be $20.1 million (2018: $14.3 million), which is 2% (2018: 2%) of Business Performance EBITDA as included in the consolidated financial statements (non–GAAP measures from page 29). Our materiality has increased by 41% from the prior year in line with the increased Business performance EBITDA of the Group, primarily due to higher production. Accordingly, we believe the magnitude of the increase to be appropriate.

We believe that EBITDA is the most appropriate basis to use as this is the key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the Group's debt and is the measure that EnQuest presents most prominently in market communications, which is consistent with a number of other listed oil and gas entities.

We determined materiality for the parent company to be $11.5 million (2018: $8.9 million), which is 1% (2018: 1%) of equity. Our materiality threshold has increased by 29% from the previous financial year due to an increase in net assets during the year, which led to an increase in equity. The materiality is lower for the parent company as compared to the Group due to the different basis used for determining materiality. The parent company does not generate revenue and the operating expenses are minimal, so we used equity as the capital based materiality basis.

During the course of our audit, we reassessed initial materiality and there has been no significant change in final materiality from our original assessment at planning.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be 50% (2018: 50%) of our planning materiality, namely $10.0 million (2018: $7.2 million). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the engagement.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to components was $9.0 million (90% of Group performance materiality) for the North Sea (2018: $6.5 million) and $3.0 million (30% of Group performance materiality) for Malaysia (2018: $1.2 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We identify and capture misstatements above $1.0 million (2018: $0.7 million) which is set at 5% of planning materiality. We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1.0 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:
- **Fair, balanced and understandable,** set out on page 66 — the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting,** set out on pages 64 to 70 — the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on pages 60 to 63 — the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, set out on page 102, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report continued

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices.
- We understood how EnQuest PLC is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies. We obtained the Code of Business conduct and employee handbook updated as at December 2017 which is provided to all employees and those charged with governance which indicates a culture of honesty and ethical behaviour and with an emphasis on fraud prevention, which may reduce opportunities for fraud to take place. Inquiries were made of those charged with governance in part to corroborate the responses to the inquiries of management.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud.
- We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non–compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, location management in all full scope entities; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Board of Directors in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ended 31 December 2010 to 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Wallek (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

8 April 2020

Notes:
1 The maintenance and integrity of the EnQuest PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Group Statement of Comprehensive Income

For the year ended 31 December 2019

		2019			2018		
	Notes	**Business performance $'000**	**Remeasurements and exceptional items (note 4) $'000**	**Reported in year $'000**	Business performance $'000	Remeasurements and exceptional items (note 4) $'000	Reported in year $'000
Revenue and other operating income	5(a)	**1,711,834**	**(65,375)**	**1,646,459**	1,201,005	97,432	1,298,437
Cost of sales	5(b)	**(1,243,570)**	**(378)**	**(1,243,948)**	(926,020)	1,718	(924,302)
Gross profit/(loss)		**468,264**	**(65,753)**	**402,511**	274,985	99,150	374,135
Net impairment (charge)/reversal to oil and gas assets	4	**–**	**(812,448)**	**(812,448)**	–	(126,046)	(126,046)
General and administration expenses	5(c)	**(7,661)**	**–**	**(7,661)**	(4,018)	–	(4,018)
Other income	5(d)	**3,446**	**–**	**3,446**	22,428	78,316	100,744
Other expenses	5(e)	**(21,881)**	**(31,735)**	**(53,616)**	(3,362)	(14,715)	(18,077)
Profit/(loss) from operations before tax and finance income/(costs)		**442,168**	**(909,936)**	**(467,768)**	290,033	36,705	326,738
Finance costs	6	**(206,596)**	**(57,165)**	**(263,761)**	(236,114)	(28)	(236,142)
Finance income	6	**2,416**	**–**	**2,416**	3,389	–	3,389
Profit/(loss) before tax		**237,988**	**(967,101)**	**(729,113)**	57,308	36,677	93,985
Income tax	7	**(23,648)**	**303,460**	**279,812**	20,887	12,406	33,293
Profit/(loss) for the year attributable to owners of the parent		**214,340**	**(663,641)**	**(449,301)**	78,195	49,083	127,278
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Transfers to income statement of cash flow hedges				**–**			(36)
Other comprehensive income for the year, net of tax				**–**			(36)
Total comprehensive income for the year, attributable to owners of the parent				**(449,301)**			127,242
Earnings per share	8	**$**		**$**	$		$
Basic		**0.131**		**(0.274)**	0.057(i)		0.092(i)
Diluted		**0.130**		**(0.274)**	0.055(i)		0.090(i)

(i) Restated to reflect the recalculated weighted average number of Ordinary shares as a result of the 2018 rights issue

The attached notes 1 to 31 form part of these Group financial statements.

Group Balance Sheet
At 31 December 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**3,450,929**	4,349,913
Goodwill	11	**134,400**	283,950
Intangible oil and gas assets	12	**27,553**	51,803
Deferred tax assets	7	**576,038**	286,721
Other financial assets	19	**11**	5,989
		4,188,931	4,978,376
Current assets			
Inventories	13	**78,644**	100,532
Trade and other receivables	16	**279,502**	275,809
Current tax receivable		**–**	20
Cash and cash equivalents	14	**220,456**	240,604
Other financial assets	19	**9,083**	66,575
		587,685	683,540
TOTAL ASSETS		**4,776,616**	5,661,916
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**345,420**	345,331
Merger reserve		**662,855**	662,855
Share-based payment reserve		**(1,085)**	(6,884)
Retained earnings		**(448,129)**	(17,750)
TOTAL EQUITY		**559,061**	983,552
Non-current liabilities			
Borrowings	18	**493,424**	735,470
Bonds	18	**966,231**	990,282
Leases liability	24	**614,818**	615,781
Contingent consideration	22	**545,550**	591,343
Provisions	23	**706,190**	714,749
Trade and other payables	17	**–**	18,209
Deferred tax liabilities	7	**20,919**	27,815
		3,347,132	3,693,649
Current liabilities			
Borrowings	18	**165,589**	311,261
Leases liability	24	**101,348**	93,169
Contingent consideration	22	**111,711**	69,093
Provisions	23	**56,769**	11,957
Trade and other payables	17	**419,855**	483,781
Other financial liabilities	19	**11,073**	142
Current tax payable		**4,078**	15,312
		870,423	984,715
TOTAL LIABILITIES		**4,217,555**	4,678,364
TOTAL EQUITY AND LIABILITIES		**4,776,616**	5,661,916

The attached notes 1 to 31 form part of these Group financial statements.

The financial statements were approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital and share premium $'000	Merger reserve $'000	Cash flow hedge reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 31 December 2017 (as previously reported)	210,402	662,855	36	(5,516)	(106,911)	760,866
Adjustment on adoption of IFRS 9 (see note 2)	–	–	–	–	(38,117)	(38,117)
Balance at 1 January 2018	210,402	662,855	36	(5,516)	(145,028)	722,749
Profit/(loss) for the year	–	–	–	–	127,278	127,278
Other comprehensive income	–	–	(36)	–	–	(36)
Total comprehensive income for the year	–	–	(36)	–	127,278	127,242
Issue of share capital	128,916	–	–	–	–	128,916
Share-based payment	–	–	–	4,645	–	4,645
Shares issued on behalf of Employee Benefit Trust	6,013	–	–	(6,013)	–	–
Balance at 31 December 2018 (as previously reported)	**345,331**	**662,855**	**–**	**(6,884)**	**(17,750)**	**983,552**
Adjustment on adoption of IFRS 9/ IFRS 16 (see note 2)	**–**	**–**	**–**	**–**	**18,922**	**18,922**
Balance at 1 January 2019	**345,331**	**662,855**	**–**	**(6,884)**	**1,172**	**1,002,474**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**(449,301)**	**(449,301)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(449,301)**	**(449,301)**
Share-based payment	**–**	**–**	**–**	**5,888**	**–**	**5,888**
Shares issued on behalf of Employee Benefit Trust	**89**	**–**	**–**	**(89)**	**–**	**–**
Balance at 31 December 2019	**345,420**	**662,855**	**–**	**(1,085)**	**(448,129)**	**559,061**

The attached notes 1 to 31 form part of these Group financial statements.

Group Statement of Cash Flows
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**994,618**	788,629
Cash received/(paid) on sale/(purchase) of financial instruments		**4,936**	(16,363)
Proceeds from exercise of Thistle decommissioning option		**–**	50,000
Decommissioning spend	23	**(11,131)**	(10,036)
Income taxes paid		**(26,152)**	(17,798)
Net cash flows from/(used in) operating activities		**962,271**	794,432
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(234,241)**	(220,213)
Purchase of intangible oil and gas assets		**(3,241)**	–
Consideration on exercise of Magnus acquisition option		**–**	(100,000)
Repayment of Magnus contingent consideration – Profit share		**(21,581)**	–
Interest received		**1,225**	1,600
Net cash flows (used in)/from investing activities		**(257,838)**	(318,613)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		**–**	219,900
Repayment of loans and borrowings		**(394,025)**	(402,008)
Repayment of Magnus contingent consideration – Vendor loan		**(52,669)**	(48,642)
Gross proceeds from issue of shares		**–**	138,926
Shares purchased by Employee Benefit Trust		**–**	(6,013)
Share issue and debt restructuring costs paid		**–**	(3,997)
Repayment of obligations under leases	24	**(135,125)**	(144,820)
Interest paid		**(146,047)**	(136,482)
Other finance costs paid		**(2,130)**	(20,425)
Net cash flows from/(used in) financing activities		**(729,996)**	(403,560)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(25,563)**	72,258
Net foreign exchange on cash and cash equivalents		**6,562**	(4,726)
Cash and cash equivalents at 1 January		**237,200**	169,668
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**218,199**	237,200
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**218,199**	237,200
Restricted cash	14	**2,257**	3,404
Cash and cash equivalents per balance sheet		**220,456**	240,604

The attached notes 1 to 31 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2019

1. Corporate information

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

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

The Group's financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 8 April 2020.

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

2. Summary of significant accounting policies

Basis of preparation

The Group financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2019 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

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

The financial statements have been prepared on the going concern basis. The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period.

The 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 repaid the term loan on or ahead of schedule, with no further scheduled payments now due in 2020.

The Group is actively monitoring the impact on operations from COVID-19 and has implemented a number of mitigations to minimise the impact. The Group has 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. Appropriate restrictions on offshore travel have been implemented, such as self-declaration by, and isolation of, individuals who have been to affected areas and pre-mobilisation temperature checking is in operation. EnQuest's normal communicable disease process has been updated specifically in respect of COVID-19, with additional offshore isolation capability and agreements in place to transport impacted individuals back onshore in dedicated helicopters. Non-essential down-manning has been implemented, with many of the Group's onshore workforce working remotely.

While it is difficult to forecast the impact of COVID-19, at the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected.

The Group has reviewed each of its assets and related spending plans in light of the current lower oil price environment. EnQuest's updated working assumption is not to re-start production at the Heather and Thistle/Deveron fields. At the same time, the Group is implementing a material operating cost and capital expenditure reduction programme. This significantly lowers EnQuest's cost base and successful delivery of this programme is assumed in the Base case.

The Base case uses an oil price assumption of $40/bbl from March 2020 through to the end of the first quarter 2021, based on recent research analyst projections for the period. This has been sensitised under a plausible downside case ('Downside case'). The Base case and Downside case indicate that the Company is covenant compliant and able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Given the extreme volatility in current oil prices, the Directors have also performed reverse stress testing with the breakeven price for liquidity being c. $10/bbl.

The quarterly liquidity covenant in the facility (the 'Liquidity Test') requires that the Group 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 which is 1 October 2021. The Liquidity Test assumptions include a price deck of the average forward curve oil price, minus a 10% discount, of 15 consecutive business days starting from approximately in the middle of the previous quarter. The Base case uses $45/bbl for the remainder of 2021, with a longer-term price assumption of $60/bbl. Under these prices the Group forecasts no breaches in the Liquidity Test. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 15% on Base case prices across all periods, the Group would breach this covenant, prior to any mitigations such as further cost reductions or other funding options. Given the extreme volatility in current oil prices, there is a risk of a potential covenant breach, which would therefore require a covenant waiver to be obtained. The Directors are confident that obtaining waivers from the facility providers would be forthcoming. However, the risk of not obtaining a waiver represents a material uncertainty that may cast doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Notwithstanding the material uncertainty 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 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 the financial statements.

New standards and interpretations

The Group applied IFRS 16 Leases from 1 January 2019 and IFRS 9 Financial Instruments from 1 January 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 Leases

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

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

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

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

At 1 January 2019, the Group recognised new right–of–use assets and lease liabilities of $60.5 million, mainly in relation to property and oil and gas vessels. This has decreased from $79.5 million reported in the half year condensed financial statements for the period ended 30 June 2019 due to recalculation of lease effective interest rates, decreasing the recognition value, and clarification on joint venture vessel leases held in Malaysia, resulting in the recognition of the leases increasing from the working interest percentage to 100% recognition as EnQuest is the only party with legal obligations. When measuring lease liabilities, the lease payments were discounted using the applicable company's incremental borrowing rate at 1 January 2019. The weighted–average incremental borrowing rate applied by EnQuest upon transition was 8.0%.

The difference between the IFRS 16 lease liability recognised at 1 January 2019, discounted at the Group's weighted–average incremental borrowing rate, versus those leases disclosed at 31 December 2018 under IAS 17 are driven by: identified operating leases at 31 December 2018 recognised as lease liability on transition; exempt leases (low–value and short–term); and extension options reasonably certain to be extended that were not included in the previously disclosed lease commitment.

The Group sub–leases part of Annan House, its Aberdeen office. The Group classifies the sub–lease as an operating lease, because it does not transfer substantially all the risks and rewards incidental to the ownership of the right–of–use asset. On the adoption of IFRS 16, the impact of the surplus lease provision held for Annan House was assessed and an adjustment for $2.6 million was taken through opening reserves and against the previously recognised provision. The Group will continue to assess the recovery of the asset and will take any provision for impairment directly to the right–of–use asset.

On 1 January 2019, the existing Kraken FPSO lease asset was transferred out of oil and gas assets and into right–of–use assets, at a net book value of $690.7 million. There was no change in the accounting policy for this existing lease on transition to IFRS 16.

The Group reassesses the judgements and estimates for leases as disclosed above at each reporting period, and has assessed, for the year ended 31 December 2019, these are not significant risks that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

2. Summary of significant accounting policies continued

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are recognised in the opening balance sheet on 1 January 2019.

Group balance sheet (extract)	1 January 2019 As originally presented $'000	Impact of change in accounting policy under IFRS 16 $'000	1 January 2019 Adjusted balance $'000
Non-current assets			
Property, plant and equipment			
Oil and Gas assets	4,331,719	(690,742)	3,640,977
Office furniture, fixtures and fittings	18,194	—	18,194
Right-of-use assets	—	751,269	751,269
Total	**4,349,913**	**60,527**	**4,410,440**
Equity			
Retained earnings	(17,750)	2,344	(15,406)
Non-current liabilities			
Obligations under leases	615,781	60,527	676,308
Current liabilities			
Obligations under leases	93,169	—	93,169
Surplus lease provision	2,344	(2,344)	—
Total	**693,544**	**60,527**	**754,071**

The adoption of IFRS 16 in the year ended 31 December 2019 resulted in an increase in depreciation of $9.0 million and finance costs of $4.7 million. Operating expenses decreased by $8.6 million.

IFRS 9 Financial Instruments

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

At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment taken through opening reserves of $16.6 million and $33.4 million through the amortised value of the bonds (reduction of $18.9 million against the retail bond and $14.5 million against the high yield bond) offset by a charge of $16.6 million against the bond interest accrual. There was no change in effective interest rate. These adjustments have been taken through this year's financial statements. The Directors believe these adjustments are not material to the prior year financial statements and would not have a material influence on the users of the financial statements.

Group balance sheet (extract)	1 January 2019 (Post IFRS 16 adjustment) $'000	Impact of change in accounting policy under IFRS 9 $'000	1 January 2019 Adjusted balance $'000
Non-current liabilities			
Bonds	998,331	(33,407)	964,924
Trade and other payables: Bond accrual	—	16,596	16,596
Current liabilities			
Bonds	—	—	—
Trade and other payables: Bond accrual	16,810	—	16,810
Total	**1,015,141**	**(16,811)**	**998,330**
Equity			
Retained earnings (brought forward after impact of IFRS 16)	(15,406)	16,578	1,172
Profit and loss: Interest and foreign exchange in 2019	—	233	233
Total	**(15,406)**	**16,811**	**1,405**

Standards issued but not yet effective

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

Basis of consolidation
The consolidated financial statements incorporate the financial statements of EnQuest PLC and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

Joint arrangements
Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations with other companies. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the consent of the relevant parties sharing control. The joint operating agreement is the underlying contractual framework to the joint arrangement, which is historically referred to as the joint venture ('JV'). The Annual Report and Accounts therefore refers to 'joint ventures' as standard terms used in the oil and gas industry, which is used interchangeably with joint operations.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation — the Group's share of the production, assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. During 2019, the Group did not have any material interests in joint ventures or in associates.

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

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

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

Oil and gas reserves
The business of the Group is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. The process in determining the estimates of oil and gas reserves requires critical judgement. The judgements, which inform the estimates of oil and gas reserves, result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing and the calculation of contingent consideration, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method, as well as the going concern assessment.

The Group uses proven and probable ('2P') reserves (see page 26) in calculations based on expected future cash flows from underlying assets. Third-party audits of EnQuest's reserves and resources are conducted annually.

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

Future oil prices
Future oil prices are a key driver of estimation affecting several areas of the financial statements. Oil and gas price assumptions are reviewed and, where necessary, adjusted on a periodic basis. The estimates take into account existing prices, historical trends and variability and other macroeconomic factors. Review includes benchmarking and analysis against forward curves from available market data and other third-party forecasts, as well as review and challenge by the Audit Committee.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

2. Summary of significant accounting policies continued

A reduction or increase in future oil prices of 10%, based on the approximate volatility of historical oil prices, are considered to be reasonably possible changes for the purposes of sensitivity analysis.

Oil price assumptions based on an internal view of forward curve prices at 31 December 2019 are $63.0/bbl (2020), $65.0/bbl (2021), $67.0/bbl (2022) and $70.0/bbl real thereafter, inflated at 2.0% per annum from 2024 (2018: $60.0/bbl (2019), $65.0/bbl (2020), $65.0/bbl (2021) and $75.0/bbl real thereafter).

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

Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the cash generating units ('CGU') to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Determination of the Magnus contingent consideration valuation requires an estimation of the fair value less costs to dispose of the cash generating unit, the Magnus asset. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cash flow models comprising the asset life of field projections using Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Key assumptions and estimates used in the impairment and contingent consideration models are stated in 'Key assumptions used in calculations' below. As the production and related cash flows can be estimated from EnQuest's experience, management believes that the estimated cash flows expected to be generated over the life of each field are the appropriate basis upon which to assess goodwill and individual assets for impairment.

Decommissioning provision

Provisions for decommissioning and restoration costs are estimates based on current legal and constructive requirements, current technology and price levels for the removal of facilities and plugging and abandoning of wells. These parameters are based on information and estimates deemed to be appropriate by the Group at the current time. The present value is calculated using amounts discounted over the useful economic life of the assets. The effect of changes resulting from these items, along with the change in expected timing, work scope and amount of expenditure, to the timing or the amount of the original estimate of the decommissioning provision, could result in a material adjustment of these provisions and is reflected on a prospective basis. Due to the significant estimates and assumptions, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2.0% (2018: 2.0%) and an annual discount rate of 2.0% (2018: 2.0%).

Deferred taxation

The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make assumptions and estimates relating to future oil prices and oil and gas reserves (as discussed above) and the estimated future costs, to assess the amount of deferred tax that can be recognised.

Key assumptions used in calculations

The key assumptions required for the calculation of the discounted cash flow models are:

- Oil prices (see above);
- Oil and gas reserves (see above);
- Production profiles based on life of field internal estimates including assumptions on performance of assets;
- Related life of field opex, capex and decommissioning costs derived from the Group's Business Plan adjusted for changes in timing based on the production profiles used as above;
- Discount rates driven by the Group's post-tax weighted average cost of capital; and
- Currency exchange rates based on management's estimate of future prices.

The discount rate reflects management's estimate of the Group's weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The post-tax discount rate applied to the Group's post-tax cash flow projections was 10.0% (2018: 10.0%). Management considers this to be the best estimate of a market participant's discount rate.

3. Segment information

Management has considered the requirements of IFRS 8 Operating Segments in regard to the determination of operating segments and concluded that the Group has two significant operating segments: the UK ('North Sea') and Malaysia. Operations are managed by location and all information is presented per geographical segment. The information reported to the Chief Operating Decision Maker does not include an analysis of assets and liabilities, and accordingly this information is not presented.

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

Year ended 31 December 2018 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,140,116	144,483	—	1,284,599	—	1,284,599
Other income	9,046	—	395	9,441	4,397	13,838
Total revenue	1,149,162	144,483	395	1,294,040	4,397	1,298,437
Income/(expenses):						
Depreciation and depletion	(411,624)	(30,767)	—	(442,391)	—	(442,391)
Net impairment (charge)/reversal to oil and gas assets	(125,009)	(1,037)	—	(126,046)	—	(126,046)
Impairment reversal of investments	(121)	—	—	(121)	—	(121)
Exploration write offs and impairments	(1,407)	—	—	(1,407)	—	(1,407)
Segment profit/(loss)(ii)	276,365	38,442	5,839	320,646	6,092	326,738
Other disclosures:						
Capital expenditure(iii)	167,070	15,806	—	182,876	—	182,876

(i) Finance income and costs and gains and losses on derivatives are not allocated to individual segments as the underlying instruments are managed on a Group basis
(ii) Inter-segment revenues are eliminated on consolidation. All other adjustments are part of the reconciliations presented further below
(iii) Capital expenditure consists of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries

Reconciliation of profit/(loss):

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Segment profit/(loss)	**(425,064)**	320,646
Finance income	**2,416**	3,389
Finance expense	**(263,761)**	(236,142)
Gain/(loss) on oil and foreign exchange derivatives	**(42,704)**	6,092
Profit/(loss) before tax	**(729,113)**	93,985

Revenue from three customers relating to the North Sea operating segment each exceeds 10% of the Group's consolidated revenue arising from sales of crude oil, with amounts of $307.1 million, $266.1 million and $211.0 million per each single customer (2018: two customers; total of $580.5 million arising in the North Sea operating segment).

All of the Group's segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) are located in the United Kingdom except for $122.1 million located in Malaysia (2018: $111.7 million).

Notes to the Group Financial Statements continued
For the year ended 31 December 2019

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

The items that the Group separately presents as exceptional on the face of the statement of comprehensive income are those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year–on–year. If an item is assessed as a remeasurement or exceptional item, then subsequent accounting to completion of the item is also taken through remeasurement and exceptional items. Management has exercised judgement in assessing the relevant material items disclosed as exceptional.

The following items are classified as remeasurements and exceptional items ('exceptional'):
- Unrealised mark–to–market changes in the remeasurement of open derivative contracts at each period end are recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures. Option premiums received or paid for commodity derivatives are recognised in remeasurements and amortised over the period of the option into Business performance revenue;
- Impairments on assets are remeasurements and are deemed to be exceptional in nature. Other non–routine write–offs/ write–downs, where deemed material;
- Fair value accounting arising in relation to business combinations is deemed as exceptional in nature, as these transactions do not relate to the principal activities and day–to–day Business performance of the Group. The subsequent remeasurement of contingent assets and liabilities arising on acquisitions, including contingent consideration, are presented within remeasurements and are presented consistently year–on–year; and
- Other items that arise from time to time that are reviewed by management as non–Business performance and are disclosed further below.

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

Year ended 31 December 2018 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	97,432	–	–	97,432
Cost of sales	2,310	(592)	–	1,718
Net impairment (charge)/reversal on oil and gas assets	–	(126,046)	–	(126,046)
Other income	–	–	78,316	78,316
Other expenses	(9,590)	(1,528)	(3,597)	(14,715)
Finance costs	–	–	(28)	(28)
	90,152	(128,166)	74,691	36,677
Tax on items above	(36,962)	48,161	1,207	12,406
	53,190	(80,005)	75,898	49,083

(i) Fair value remeasurements include unrealised mark–to–market movements on derivative contracts and other financial instruments and the impact of recycled realised gains and losses (including option premiums) out of 'Remeasurements and exceptional items' and into Business performance profit or loss of $65.8 million. Other expenses relate to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $15.5 million (note 22) (2018: $9.7 million)

(ii) Impairments and write offs include an impairment of tangible oil and gas assets totalling $637.5 million (note 10) (2018: impairment of $126.0 million), impairment of goodwill of $149.6 million (note 11) and impairment of intangible oil and gas assets totalling $25.4 million (note 12) (2018: $0.4 million)

(iii) Other expenses mainly relate to the provision for settlement of the historical KUFPEC claim of $15.6 million (2018: Net other income includes $74.3 million in relation to the step acquisition uplift of the original 25% equity acquired in 2017 and $1.3 million loss in relation to the revaluation of the option to purchase the Magnus oil field and other interests). Other finance costs mainly relate to the unwinding of contingent consideration from the acquisition of Magnus and associated infrastructure of $57.2 million

5. Revenue and expenses

(a) Revenue and other revenue

Accounting policy

Revenue from contracts with customers

The Group generates revenue through the sale of crude oil, gas and condensate to third parties, and through the provision of infrastructure to its customers for tariff income. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 to 90 days upon performance of the obligation.

Sale of crude oil, gas and condensate

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

Tariff revenue for the use of Group infrastructure

Tariffs are charged to customers for the use of infrastructure owned by the Group. The revenue represents the performance of an obligation for the use of Group assets over the life of the contract. The use of the assets is not separable as they are interdependent in order to fulfil the contract and no one item of infrastructure can be individually isolated. Revenue is recognised as the performance obligations are satisfied over the period of the contract, generally a period of 12 months or less, on a monthly basis based on throughput at the agreed contracted rates.

Other revenue

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

The Group manages the risk of change in underlying market prices through the use of commodity derivative contracts, which are financial instruments designated at fair value through profit or loss (see note 15).

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**1,548,177**	1,237,600
Revenue from gas and condensate sales	**120,242**	43,063
Tariff revenue	**7,673**	3,936
Total revenue from contracts with customers	**1,676,092**	1,284,599
Rental income	**7,082**	7,205
Realised (losses)/gains on oil derivative contracts (see note 19)	**24,756**	(93,035)
Other operating revenue	**3,904**	2,236
Business performance revenue	**1,711,834**	1,201,005
Unrealised (losses)/gains on oil derivative contracts[(i)] (see note 19)	**(65,375)**	97,432
Total revenue and other operating income	**1,646,459**	1,298,437

(i) Unrealised gains and losses on oil derivative contracts are disclosed as fair value remeasurement items in the income statement (see note 4)

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2019 $'000		Year ended 31 December 2018 $'000	
	North Sea	Malaysia	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**1,405,956**	**142,221**	1,096,581	141,019
Revenue from gas and condensate sales	**116,714**	**3,528**	39,599	3,464
Tariff revenue	**7,673**	**—**	3,936	—
Total revenue from contracts with customers	**1,530,343**	**145,749**	1,140,116	144,483

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

5. Revenue and expenses continued

Contract balances

The following table provides information about receivables from contracts with customers. There are no contract assets or contract liabilities.

	2019 $'000	2018 $'000
Trade receivables (see note 16)	**117,149**	69,857

(b) Cost of sales

Accounting policy

Production imbalances, movements in under/over–lift and movements in inventory are included in cost of sales. The under or over–lifted positions of hydrocarbons arising from production and lifting imbalances are valued at the lower of cost or net realisable value ('NRV') at the balance sheet date. An under–lift of production from a field is included in current receivables and an over–lift of production from a field is included in current liabilities.

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Production costs	**441,624**	396,880
Tariff and transportation expenses	**74,782**	68,446
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	**1,707**	615
Change in lifting position	**96,886**	(14,332)
Crude oil inventory movement	**5,967**	(10,761)
Depletion of oil and gas assets (see note 10)	**525,145**	437,104
Other cost of operations	**97,459**	48,068
Business performance cost of sales	**1,243,570**	926,020
Unrealised (gains)/losses on derivative contracts related to operating costs[(i)] (see note 19)	**378**	(2,310)
Other expenses	**–**	592
Total cost of sales	**1,243,948**	924,302

(i) Unrealised gains and losses on derivative contracts are disclosed as fair value remeasurement in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Staff costs (see note 5(f))	**90,764**	91,113
Depreciation (see note 10)	**8,207**	5,287
Other general and administration costs	**23,094**	32,764
Recharge of costs to operations and joint venture partners	**(114,404)**	(125,146)
Total general and administration expenses	**7,661**	4,018

(d) Other income

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Net foreign exchange gains	**–**	21,911
Other income	**3,446**	517
Business performance other income	**3,446**	22,428
Excess of fair value over consideration: Purchase option (see note 30)	**–**	(1,329)
Fair value gain on step acquisition (see note 30)	**–**	74,345
Contingent consideration release	**–**	5,300
Total other income	**3,446**	100,744

(e) Other expenses

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Net foreign exchange losses	16,427	—
Other	5,454	3,362
Business performance other expenses	21,881	3,362
Fair value changes in contingent consideration (see note 22)	15,520	9,590
Settlement provision (see note 23)	15,630	—
Write down of receivable	415	3,010
Exploration and evaluation expenses: Written off and impaired	150	1,407
Other expenses	20	708
Total other expenses	53,616	18,077

(f) Staff costs

Accounting policy

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

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

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Wages and salaries	122,068	104,781
Social security costs	12,472	10,278
Defined contribution pension costs	12,491	11,764
Expense of share-based payments (see note 21)	5,888	4,645
Other staff costs	5,563	4,731
Total employee costs	158,482	136,199
Contractor costs	16,565	16,724
Total staff costs	175,047	152,923
General and administration staff costs (see note 5(c))	90,764	91,113
Non general and administration costs	84,283	61,810
Total staff costs	175,047	152,923

The average number of persons employed by the Group during the year was 958, with 467 in the general and administration staff costs and 491 directly attributable to assets (2018: 839, 448 in general and administration and 391 directly attributable to assets).

(g) Auditor's remuneration

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

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	682	721
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	176	108
Audit related assurance services (interim review)	136	134
Tax advisory services	12	5
Corporate finance services(i)	—	368
	324	615
Total auditor's remuneration	1,006	1,336

(i) Relates to reporting accountant's report on the unaudited pro forma financial information in the Company's combined prospectus and circular for the rights issue

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

6. Finance costs/income

Accounting policy

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

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Finance costs:		
Loan interest payable	**67,749**	93,413
Bond interest payable	**62,694**	64,243
Unwinding of discount on decommissioning provisions (see note 23)	**13,410**	12,617
Unwinding of discount on other provisions (see note 23)	**671**	917
Unwinding of discount on financial liabilities (see note 19(f))	**–**	72
Fair value (gain)/loss on financial instruments at FVPL (see note 19(b))	**–**	353
Finance charges payable under leases	**55,686**	55,837
Amortisation of finance fees on loans and bonds	**5,727**	8,525
Other financial expenses	**2,055**	1,666
	207,992	237,643
Less: amounts capitalised to the cost of qualifying assets	**(1,396)**	(1,529)
Business performance finance expenses	**206,596**	236,114
Unwinding of discounts on contingent consideration (see note 22)	**57,165**	28
Total finance costs	**263,761**	236,142
Finance income:		
Bank interest receivable	**1,511**	1,821
Unwinding of discount on financial asset (see note 19(f))	**905**	1,517
Other financial income	**–**	51
Total finance income	**2,416**	3,389

7. Income tax

(a) Income tax

Accounting policy

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

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

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

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

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

Production taxes

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

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

Investment allowance

The UK taxation regime provides for a reduction in ring-fence supplementary charge tax where investment in new or existing UK assets qualify for a relief known as investment allowance. Investment allowance must be activated by commercial production from the same field before it can be claimed. The Group has both unactivated and activated investment allowance which could reduce future supplementary charge taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

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

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Current income tax		
Current income tax charge	**354**	17,764
Adjustments in respect of current income tax of previous years	**(745)**	—
Current overseas income tax		
Current income tax charge	**20,894**	16,048
Adjustments in respect of current income tax of previous years	**(4,102)**	420
Total current income tax	**16,401**	34,232
Deferred income tax		
Relating to origination and reversal of temporary differences	**(277,198)**	(61,879)
Adjustments in respect of changes in tax rates	**—**	(4,404)
Adjustments in respect of deferred income tax of previous years	**(21,309)**	(2,304)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(953)**	612
Adjustments in respect of deferred income tax of previous years	**3,247**	450
Total deferred income tax	**(296,213)**	(67,525)
Income tax (credit)/expense reported in profit or loss	**(279,812)**	(33,293)

(b) Reconciliation of total income tax charge

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

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Profit/(loss) before tax	**(729,113)**	93,985
Statutory rate of corporation tax in the UK of 40% (2018: 40%)	**(291,645)**	37,594
Supplementary corporation tax non-deductible expenditure	**18,593**	20,284
Non-deductible expenditure/income(i)	**89,746**	(21,689)
Petroleum Revenue Tax (net of income tax benefit)	**—**	—
North Sea tax reliefs	**(84,273)**	(64,228)
Tax in respect of non ring-fence trade	**4,940**	691
Tax losses not recognised	**6,329**	1,509
Deferred tax rate changes	**—**	(4,404)
Adjustments in respect of prior years	**(22,909)**	(1,434)
Overseas tax rate differences	**(1,064)**	(673)
Share-based payments	**2,013**	899
Other differences	**(1,542)**	(1,842)
At the effective income tax rate of 38% (2018: 35%)	**(279,812)**	(33,293)

(i) The 2019 charge (2018: credit) is mainly due to the non-taxable expense (2018: income) in relation to the goodwill and non-taxable fair value movements on the acquisition of the 75% interest in the Magnus oil field; this is netted against the non-tax deductible depreciation on fixed assets

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Deferred tax liability				
Accelerated capital allowances	**1,057,805**	1,400,956	**(343,152)**	93,196
	1,057,805	1,400,956		
Deferred tax asset				
Losses	**(1,102,534)**	(1,212,988)	**110,455**	15,046
Decommissioning liability	**(284,057)**	(267,954)	**(16,103)**	(13,946)
Other temporary differences	**(226,333)**	(178,920)	**(47,413)**	(161,821)
	(1,612,924)	(1,659,862)		
Deferred tax expense			**(296,213)**	(67,525)
Net deferred tax (assets)/liabilities	**(555,119)**	(258,906)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(576,038)**	(286,721)		
Deferred tax liabilities	**20,919**	27,815		
Net deferred tax (assets)/liabilities	**(555,119)**	(258,906)		

Reconciliation of net deferred tax assets/(liabilities)

	2019 $'000	2018 $'000
At 1 January	**258,906**	335,578
Tax income/(expense) during the period recognised in profit or loss	**296,213**	67,525
Deferred taxes acquired	**–**	(144,197)
At 31 December	**555,119**	258,906

(d) Tax losses

The Group's deferred tax assets at 31 December 2019 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. All of the Group's ring-fence deferred tax assets are recognised as there are sufficient future profits forecast to utilise them fully. In accordance with IAS 12 Income Taxes, the Group assesses the recoverability of its deferred tax assets at each period end. Sensitivities have been run on the oil price assumption, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would result in no change in the full recognition of deferred taxes, with headroom still available.

The Group has unused UK mainstream corporation tax losses of $297.8 million (2018: $287.5 million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of the creation of non ring-fence profits and therefore uncertainty over the recovery of these losses. In addition the Group has not recognised a deferred tax asset for the adjustment to bond valuations on the adoption of IFRS 9 (see note 2). The benefit of this deduction is taken over ten years with a deduction of $3.8 million being taken in the current period with the remaining benefit of $30.5 million remaining unrecognised.

The Group has unused Malaysian income tax losses of $12.2 million (2018: $9.4 million) arising in respect of the Tanjong Baram RSC for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

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

(e) Changes in legislation

Finance Act 2016 enacted a change in the mainstream corporation tax rate to 17% with effect from 1 April 2020. In the Budget statement on 11 March 2020 it was announced that the corporation tax rate will remain at 19% from 1 April 2020. As all UK mainstream corporation tax losses are not recognised there is no impact on the current year resulting from this change.

8. Earnings per share

The calculation of earnings per share is based on the profit after tax and on the weighted average number of Ordinary shares in issue during the period. Diluted earnings per share is adjusted for the effects of Ordinary shares granted under the share–based payment plans, which are held in the Employee Benefit Trust.

Basic and diluted earnings per share are calculated as follows:

	Profit/(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2019 $'000	2018 $'000	**2019 million**	2018[ii] million	**2019 $**	2018[ii] $
Basic	**(449,301)**	127,278	**1,640.1**	1,381.8	**(0.274)**	0.092
Dilutive potential of Ordinary shares granted under share–based incentive schemes	**–**	–	**14.7**	37.8	**–**	(0.002)
Diluted	**(449,301)**	127,278	**1,654.8**	1,419.6	**(0.274)**	0.090
Basic (excluding exceptional items)	**214,340**	78,195	**1,640.1**	1,381.8	**0.131**	0.057
Diluted (excluding exceptional items)	**214,340**	78,195	**1,654.8**	1,419.6	**0.130**	0.055

(ii) Restated to reflect the recalculated weighted average number of Ordinary shares as a result of the 2018 rights issue

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2019 (2018: none). At 31 December 2019, there are no proposed dividends (2018: none).

10. Property, plant and equipment

Accounting policy

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

Cost

Cost comprises the purchase price or cost relating to development, including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells and any other costs directly attributable to making that asset capable of operating as intended by management. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

Development assets

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

Carry arrangements

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

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised during the development phase of the project until such time as the assets are substantially ready for their intended use.

Depletion and depreciation

Oil and gas assets are depleted, on a field–by–field basis, using the unit of production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves. Changes in factors which affect unit of production calculations are dealt with prospectively. Depletion of oil and gas assets is taken through cost of sales.

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

Office furniture and equipment	Five years
Fixtures and fittings	Ten years
Right–of–use assets	Period of lease

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end. No depreciation is charged on assets under construction.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

10. Property, plant and equipment continued

Impairment of tangible and intangible assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its oil and gas assets at field level basis to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. See 'Key estimates used in calculations'. The cash flows have been modelled on a post-tax basis at the Group's post-tax discount rate. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

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

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Right-of-use assets (note 24) $'000	Total $'000
Cost:				
At 1 January 2018	8,070,694	57,716	–	8,128,410
Additions	178,627	2,856	–	181,483
Acquired (note 30)	745,350	–	–	745,350
Acquired: Change in fair value on step acquisition (see note 30)	123,909	–	–	123,909
Change in decommissioning provision (see notes 12 and 23)	30,194	–	–	30,194
Change in cost recovery provision (see note 23)	(7,947)	–	–	(7,947)
Change in financial carry liability (see note 19)	(1,066)	–	–	(1,066)
Change in estimate	(2,195)	–	–	(2,195)
At 31 December 2018 (as previously reported)	**9,137,566**	**60,572**	**–**	**9,198,138**
IFRS 16 recognition and reclassification[(i)] (see note 2)	**(771,975)**	**–**	**832,502**	**60,527**
At 1 January 2019	**8,365,591**	**60,572**	**832,502**	**9,258,665**
Additions	**149,503**	**3,324**	**24,587**	**177,414**
Change in decommissioning provision (see notes 12 and 23)	**40,097**	**–**	**–**	**40,097**
Change in cost recovery provision (see note 23)	**(5,895)**	**–**	**–**	**(5,895)**
Reclass within asset class	**(2,591)**	**(86)**	**–**	**(2,677)**
Reclass from/(to) other assets and intangibles (see note 12)	**1,064**	**(1,357)**	**–**	**(293)**
At 31 December 2019	**8,547,769**	**62,453**	**857,089**	**9,467,311**
Accumulated depletion and impairment:				
At 1 January 2018	4,242,697	37,091	–	4,279,788
Charge for the year	437,104	5,287	–	442,391
Impairment charge for the year	126,046	–	–	126,046
At 31 December 2018 (as previously reported)	**4,805,847**	**42,378**	**–**	**4,848,225**
IFRS 16 recognition and reclassification[(i)] (see note 2)	**(81,233)**	**–**	**81,233**	**–**
At 1 January 2019	**4,724,614**	**42,378**	**81,233**	**4,848,225**
Charge for the year	**438,242**	**4,453**	**90,657**	**533,352**
Impairment charge for the year	**637,500**	**–**	**–**	**637,500**
Reclass within asset class	**(2,591)**	**(86)**	**–**	**(2,677)**
Reclass from/(to) other assets and intangibles (see note 12)	**159**	**(177)**	**–**	**(18)**
At 31 December 2019	**5,797,924**	**46,568**	**171,890**	**6,016,382**
Net carrying amount:				
At 31 December 2019	**2,749,845**	**15,885**	**685,199**	**3,450,929**
At 31 December 2018	4,331,719	18,194	–	4,349,913
At 1 January 2018	3,827,997	20,625	–	3,848,622

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

The net book value at 31 December 2019 includes $70.7 million (2018: $95.4 million) of pre-development assets and development assets under construction.

The amount of borrowing costs capitalised during the year ended 31 December 2019 was $1.4 million and relates to the Dunlin bypass project (2018: $1.5 million relating to the Dunlin bypass project). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 8.4% (2018: 7.7%).

Impairment testing of oil and gas assets

Impairments to the Group's producing oil and gas assets and reversals of impairments are set out in the table below:

	Impairment (charge)/reversal		Recoverable amount(i)	
	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000	**31 December 2019 $'000**	31 December 2018 $'000
North Sea	**(637,500)**	(125,009)	**46,462**	158,890
Malaysia	**–**	(1,037)	**–**	41,488
Net impairment reversal/(charge)	**(637,500)**	(126,046)		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 2 for further details of significant estimates and judgements made in relation to impairments). The amounts disclosed above are in respect of assets where an impairment (or reversal) has been recorded. Assets which did not have any impairment or reversal are excluded from the amounts disclosed

The impairment in the year related to North Sea assets. The impairments are attributable primarily to changes to the long-term oil price from $75.0/bbl to $70.0/bbl, revision to production profiles (see reserves and resources on page 26) in the Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia. Both the Heather/Broom and Thistle/Deveron fields were fully impaired as a result of the impairment assessment conditions as at 31 December 2019.

The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. Sensitivities have been run on the oil price assumption, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would increase the net impairment by approximately $388.0 million, with the additional impairment attributable to the fields in the North Sea.

11. Goodwill

Accounting policy

Cost

Goodwill arising on a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in profit or loss.

Impairment of goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. In accordance with IAS 36 Impairment of Assets, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired is allocated to the CGU that is expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill, which has been acquired through business combinations, has been allocated to a single CGU, the UK Continental Shelf ('UKCS'), and this is therefore the lowest level at which goodwill is reviewed. The UKCS is a combination of oil and gas assets, as detailed within property, plant and equipment (note 10). Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. See 'Key estimates used in calculations' (note 2). The cash flows have been modelled on a post-tax basis at the Group's post-tax discount rate. Where the recoverable amount of the CGU is less than the carrying amount of the CGU and related goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Notes to the Group Financial Statements continued
For the year ended 31 December 2019

11. Goodwill continued
A summary of goodwill is presented below:

	2019 $'000	2018 $'000
Cost and net carrying amount		
At 1 January	**283,950**	189,317
Acquisition (see note 30)	**–**	94,633
Impairment	**(149,550)**	–
At 31 December	**134,400**	283,950

On 1 December 2018, the Group acquired the remaining 75% interest in the Magnus oil field and associated interests. Goodwill of $94.6 million was recognised, representing the future economic benefits that EnQuest's expertise is expected to realise from the assets (see note 30). The historical goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Impairment testing of goodwill
An impairment charge of $149.6 million was taken in 2019 (2018: $nil). The impairment is attributable to changes in the underlying North Sea assets, as disclosed in 'impairment testing of oil and gas assets' (note 10). The goodwill value stated is the recoverable amount.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. Sensitivities have been run on the oil price assumption with a 5% reduction in oil price fully impairing goodwill.

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

During the year ended 31 December 2019, the Group impaired for the write-off of historical exploration and appraisal expenditures totalling $25.4 million (2018: $0.4 million). During the year ended 31 December 2018, the Group relinquished licences previously impaired resulting in write-off of $63.5 million.

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 1 January 2018	228,026	(175,923)	52,103
Additions	1,393	–	1,393
Write-off of relinquished licences previously impaired	(63,547)	63,547	–
Unsuccessful exploration expenditure written off	–	(1,009)	(1,009)
Change in decommissioning provision (see notes 10 and 23)	(286)	–	(286)
Impairment charge for the year	–	(398)	(398)
At 31 December 2018	**165,586**	**(113,783)**	**51,803**
Additions	**3,241**	**–**	**3,241**
Write-off of relinquished licences previously impaired	**(583)**	**583**	**–**
Unsuccessful exploration expenditure written off	**–**	**(150)**	**(150)**
Change in decommissioning provision (see notes 10 and 23)	**(2,218)**	**–**	**(2,218)**
Impairment charge for the year	**–**	**(25,398)**	**(25,398)**
Reclass within asset class	**8,645**	**(8,645)**	**–**
Reclass from/(to) tangible fixed assets (see note 10)	**293**	**(18)**	**275**
At 31 December 2019	**174,964**	**(147,411)**	**27,553**

13. Inventories

Accounting policy

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

	2019 $'000	2018 $'000
Hydrocarbon inventories	**17,216**	23,183
Well supplies	**61,428**	77,349
	78,644	100,532

During 2019, inventories of $14.6 million (2018: $5.8 million) were recognised within cost of sales in the statement of comprehensive income.

14. Cash and cash equivalents

	2019 $'000	2018 $'000
Available cash		
Cash at bank	**137,365**	126,625
Short-term deposits	**6,849**	6,640
Total available cash	**144,214**	133,265
Ring-fenced cash		
Joint venture accounts	**32,365**	45,095
Operational accounts	**41,620**	58,840
Total ring-fenced cash	**73,985**	103,935
Total cash at bank and in hand	**218,199**	237,200
Restricted cash — Cash subject to currency controls or other legal restrictions		
Cash held in escrow	**1,611**	2,764
Cash collateral	**646**	640
Total restricted cash — Cash subject to currency controls or other legal restrictions	**2,257**	3,404
Total cash and cash equivalents	**220,456**	240,604

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short-term maturities. Ring-fenced cash includes joint venture accounts and cash held in operational accounts, as detailed below.

Short-term deposits

At 31 December 2019, $6.8 million (2018: $6.6 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

Joint venture accounts

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

Operational accounts

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

- Sculptor Capital (previously Oz Management) working capital for use only for the activities of the ring-fenced 15% interest in the Kraken oil field (see note 18);
- SVT working capital for use only with the activities of SVT (see note 18);
- Tanjong Baram cash held in a Malaysian bank account which can only be used to pay cash calls for the Tanjong Baram asset and amounts related to the project finance loan (see note 18);
- Magnus asset working capital for use only for activities of Magnus and maintained for the repayment mechanism with BP for the contingent consideration (see note 22).

Restricted cash

Included within the cash balance at 31 December 2019 is restricted cash of $2.3 million (2018: $3.4 million). Of this, $1.6 million relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2018: $2.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

15. Financial instruments and fair value measurement

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets
Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them. The Group does not currently hold any financial assets at FVOCI i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

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

The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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

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

Financial instruments at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. Unrealised mark–to–market changes in the remeasurement of open derivative contracts at each period end is recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures. Option premium received or paid for commodity derivatives are recognised in remeasurements and amortised over the period of the option into Business performance revenue.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL. Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

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

31 December 2019	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Financial assets measured at fair value:				
Derivative financial assets at FVPL				
Oil commodity derivative contracts	**288**	**–**	**288**	**–**
Foreign currency derivative contracts	**1,932**	**–**	**1,932**	**–**
Other financial assets at FVPL				
Quoted equity shares	**11**	**11**	**–**	**–**
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Oil commodity derivative contracts	**11,073**	**–**	**11,073**	**–**
Other financial liabilities measured at FVPL				
Contingent consideration	**657,261**	**–**	**–**	**657,261**
Liabilities for which fair values are disclosed				
Interest–bearing loans and borrowings	**661,638**	**–**	**–**	**661,638**
Obligations under leases	**716,166**	**–**	**–**	**716,166**
Retail bond	**195,948**	**195,948**	**–**	**–**
High yield bond	**655,462**	**655,462**	**–**	**–**

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

Notes to the Group Financial Statements continued
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15. Financial instruments and fair value measurement continued

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived from prices) observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (Level 2). Contingent consideration is measured at FVPL using the Level 3 valuation processes disclosed in note 22. There have been no transfers between Level 1 and Level 2 during the period (2018: no transfers).

For the fair value of financial liabilities that are not measured at fair value (but fair value disclosures are required), the fair value of the bonds classified as Level 1 was derived from quoted prices for that financial instrument. Both interest–bearing loans and borrowings and obligations under finance leases were calculated using the discounted cash flow method to capture the present value (Level 3).

16. Trade and other receivables

	2019 $'000	2018 $'000
Current		
Trade receivables	**117,149**	69,857
Joint venture receivables	**119,519**	84,745
Under–lift position	**17,651**	81,173
VAT receivable	**6,887**	–
Other receivables	**3,374**	14,741
	264,580	250,516
Prepayments and accrued income	**14,922**	25,293
	279,502	275,809

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

Trade receivables are non–interest–bearing and are generally on 15 to 30 day terms. Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners. Receivables are reported net of any provisions for impairment with no provision necessary as at 31 December 2019 or 2018.

17. Trade and other payables

	2019 $'000	2018 $'000
Current		
Trade payables	**92,238**	162,686
Accrued expenses	**258,539**	296,758
Over–lift position	**46,201**	12,837
Joint venture creditors	**1,788**	1,701
VAT payable	**–**	23,543
Other payables	**21,089**	4,465
	419,855	501,990
Classified as:		
Current	**419,855**	483,781
Non–current	**–**	18,209
	419,855	501,990

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation to their fair value largely due to the short–term maturities. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling. Trade payables are normally non–interest–bearing and settled on terms of between 10 and 30 days. The Group has arrangements with various suppliers to defer payment of a proportion of its capital spend. All of these deferred payments fall due in 2020.

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

18. Loans and borrowings

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

	2019			2018		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	475,097	–	475,097	799,444	–	799,444
Sculptor Capital facility	122,912	(2,625)	120,287	178,524	(3,325)	175,199
Crude oil prepayment	–	–	–	22,222	(111)	22,111
SVT working capital facility	31,899	–	31,899	15,747	–	15,747
Tanjong Baram project financing facility	31,730	–	31,730	31,730	–	31,730
Trade creditor loan	–	–	–	2,500	–	2,500
Total loans	661,638	(2,625)	659,013	1,050,167	(3,436)	1,046,731
Due within one year			165,589			311,261
Due after more than one year			493,424			735,470
Total loans			659,013			1,046,731

Credit facility

On 21 November 2016, the Group completed a loan restructuring and entered into an amended and restated credit agreement, which included the following terms:

- Commitments split into a term facility of $1.125 billion and a revolving facility of $75 million (together the 'credit facility');
- Maturity date of October 2021;
- Amortisation payable from 1 April 2018 first scheduled amortisation date;
- Borrowings subject to mandatory repayment out of excess cash flow (excluding amounts required for approved capital expenditure), assessed on a six-monthly basis;
- Borrowings up to $890.7 million subject to interest at USD LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at USD LIBOR plus a margin of 5.25%, paid in cash, with a further 3.75% interest accrued and added to the Payment In Kind ('PIK') amount at maturity of each loan's maturity period;
- PIK amount repayable at maturity and subject to 9.0% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December; and
- $12 million waiver fee payable to lenders on 31 March 2018.

At 31 December 2019, the carrying amount of the credit facility on the balance sheet was $477.4 million, comprising the loan principal drawn down of $460.0 million, $15.8 million of interest capitalised to the PIK amount and $1.6 accrued interest (note 17) (2018: carrying amount $802.7 million, principal drawn down $785.0 million, PIK $14.4 million and accrued interest $3.3 million).

At 31 December 2019, after allowing for letter of credit utilisation of $6.8 million, $68.2 million remained available for drawdown under the credit facility (2018: $6.6 million and $68.4 million, respectively).

Sculptor Capital facility (previously Oz Management facility)

On 24 September 2018, the Group entered into a $175.0 million financing facility with Sculptor Capital LP. The facility was drawn down in full and is repayable in five years from initial availability of the facility. Interest accrues at 6.3% annual effective rate plus one-month USD LIBOR. The financing is ring-fenced on a 15% interest in the Kraken oil field and will be repaid out of the cash flows associated with the interest over a maximum of five years.

Crude oil prepayment transaction

On 25 October 2017, the Group entered into an $80.0 million crude oil prepayment with Mercuria Energy Trading SA. Repayment was made in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 MMbbls of oil. EnQuest received the average Brent price over each month subject to a floor of $45/bbl and a cap of approximately $64/bbl. Interest on the prepayment was payable at one-month USD LIBOR plus a margin of 7.0%. The prepayment transaction was undertaken on an unsecured basis. The prepayment completed during 2019 with no liability outstanding as at 31 December 2019.

SVT working capital facility

On 1 December 2017, EnQuest NNS Limited entered into a £42.0 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and other interests. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR. The facility is repayable three years from the initial availability of the facility.

Tanjong Baram project financing facility

On 25 October 2017, the Group entered into a $34.6 million financing facility in Malaysia with Castleton Commodities Merchant Asia Co. Pte Ltd. The facility is repayable within five years from the drawdown date on 28 February 2018 or following termination of the Risk Services Contract, and is secured against the Tanjong Baram asset. Interest is payable at USD LIBOR plus a margin of 8.0% per annum.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

18. Loans and borrowings continued

Trade creditor loan

In October 2016, the Group borrowed $40.0 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan was repaid in full in 2019.

Bonds

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

	2019			2018		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
High yield bond	**746,056**	**(4,483)**	**741,573**	760,553	(6,475)	754,078
Retail bond	**225,747**	**(1,089)**	**224,658**	237,778	(1,574)	236,204
Total bonds due after more than one year	**971,803**	**(5,572)**	**966,231**	998,331	(8,049)	990,282

High yield bond

In April 2014, the Group issued a $650 million high yield bond. On 21 November 2016, the high yield bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new high yield notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional high yield notes ('Additional HY Notes'). $27.5 million of accrued, unpaid interest as at the restructuring date was capitalised and added to the principal amount of the new high yield notes issued pursuant to the scheme. The maturity of the new high yield notes was extended to 15 April 2022 and the Company has the option to extend the maturity date of the new high yield notes to 15 April 2023. Further, the maturity date of the new high yield notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $15.4 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment of $14.5 million against the high yield bond, offset by adjustments through opening reserves and the bond interest accrual. There was no change in effective interest rate (see note 2).

The total carrying value of the bond as at 31 December 2019 is $754.8 million. This includes bond principal of $746.1 million, bond interest accrual of $11.0 million (note 17) and liability for the IFRS 9 Financial Instruments loss on modification of $2.2 million less unamortised fees of $4.5 million (2018: carrying value $765.1 million, bond principal $746.1 million, bond interest accrual $11.0 million, IFRS 9 modification liability $14.5 million less unamortised fees of $6.5 million). The fair value of the high yield bond is disclosed in note 15.

Retail bond

In 2013, the Group issued a £155 million retail bond. On 21 November 2016, the retail bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new retail notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional retail notes ('Additional Retail Notes'). The maturity of the new retail notes was extended to 15 April 2022 and the Company has the option to extend the maturity date to 15 April 2023. Further, the maturity date of the new retail notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $22.7 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment of $18.9 million against the retail bond, offset by adjustments through opening reserves and the bond interest accrual. There was no change in effective interest rate (see note 2).

The total carrying value of the bond as at 31 December 2019 is $241.1 million. This includes bond principal of $225.7 million, bond interest accrual of $6.0 million (note 17) and liability for the IFRS 9 Financial Instruments loss on modification of $10.5 million less unamortised fees of $1.1 million (2018: carrying value $242.0 million, bond principal $218.9 million, bond interest accrual $5.8 million, IFRS 9 modification liability $18.9 million less unamortised fees of $1.6 million). The fair value of the retail bond is disclosed in note 15.

19. Other financial assets and financial liabilities

(a) Summary as at year end

	2019		2018	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	288	11,073	54,733	142
Derivative foreign exchange contracts	1,932	–	248	–
Derivative carbon contracts	–	–	2,077	–
Amortised cost:				
Other receivables	6,863	–	9,517	–
Total current	9,083	11,073	66,575	142
Fair value through profit or loss:				
Quoted equity shares	11	–	31	–
Amortised cost:				
Other receivables	–	–	5,958	–
Total non-current	11	–	5,989	–

(b) Income statement impact

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

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

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2018	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000
Commodity options	(29,309)	63,022	–	–	–	–
Commodity swaps	(47,740)	29,016	–	–	–	–
Commodity futures	(7,951)	84	–	–	–	–
Commodity collar on prepayment transaction	(8,035)	5,310	–	–	–	–
Foreign exchange contracts	–	–	(615)	248	–	–
Carbon forwards	–	–	–	2,062	–	–
Interest rate swap	–	–	–	–	(353)	–
	(93,035)	97,432	(615)	2,310	(353)	–

(c) Commodity contracts

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

19. Other financial assets and financial liabilities continued

For the year ended 31 December 2019, losses totalling $40.6 million (2018: gains of $4.4 million) were recognised in respect of commodity contracts designated as FVPL. This included gains totalling $24.8 million (2018: losses of $93.0 million) realised on contracts that matured during the year, and mark-to-market unrealised losses totalling $65.4 million (2018: gains of $97.4 million). Of the realised amounts recognised during the year, a gain of $4.9 million (2018: loss of $17.2 million) was realised in Business performance revenue in respect of the amortisation of premium income received on sale of these options. The premiums received are amortised into Business performance revenue over the life of the option.

In October 2017, the Group entered into an 18-month collar structure for $80.0 million. The collar included 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. For the year ended 31 December 2019, a loss of $1.1 million was recognised in Business performance revenue (2018: loss of $8.0 million). The collar is now complete.

The mark-to-market value of the Group's open contracts as at 31 December 2019 was a liability of $10.8 million (2018: asset of $54.7 million).

(d) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, primarily in relation to Sterling. During the year ended 31 December 2019, losses totalling $1.0 million (2018: losses of $0.4 million) were recognised in the income statement. This included realised loss totalling $2.7 million (2018: losses of $0.6 million) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2019 was an asset of $1.9 million (2018: asset of $0.2 million).

(e) Carbon contracts

During the year the Group entered forward carbon contracts to manage its exposure to compliance with European emissions regulations. For the year ended 31 December 2018, the contracts were designated as at FVPL and gains and losses on these contracts are recognised as a component of cost of sales. The mark-to-market value of the Group's open contracts as at 31 December 2018 was $2.1 million.

During 2019, realised gains of $1.0 million (2018: $nil) and unrealised losses of $2.1 million (2018: gains $2.1 million) were recognised in respect of carbon commodity contracts designated as FVPL.

During 2019, the contracts entered were, and continue to be, held for the purpose of the receipt of non-financial items in accordance with the Group's expected purchase, sale or usage requirements, therefore are recognised as purchases within cost of sales under the 'own-use' exemption. These are therefore recognised directly within cost of sales.

(f) Other receivables and liabilities

	Other receivables $'000	Other liabilities $'000
At 1 January 2018	70,044	26,332
Exercised on acquisition	(20,970)	–
Change in fair value	(172)	(7,283)
Utilised during the year	(66,194)	(14,907)
Unwinding of discount	(1,081)	72
Foreign exchange	980	–
Classification update	32,899	(4,214)
At 31 December 2018	**15,506**	**–**
Additions	**–**	**–**
Change in fair value	**(20)**	**–**
Utilised during the year	**(9,517)**	**–**
Unwinding of discount	**905**	**–**
At 31 December 2019	**6,874**	**–**
Current	**6,863**	**–**
Non-current	**11**	**–**
	6,874	**–**

Other receivables

Comprised of:	2019 $'000	2018 $'000
BUMI receivable	**6,863**	15,475
Other	**11**	31
Total	**6,874**	15,506

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund $65 million (EnQuest's share being $45.8 million) of a $100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable from 2018 onwards. Included within other receivables at 31 December 2019 is an amount of $6.9 million representing the discounted value of EnQuest's share of these repayments (2018: $15.5 million). A total of $9.5 million was collected during the period.

20. Share capital and premium

Accounting policy

Share capital and share premium

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

Merger reserve

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

Retained earnings

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

Share-based payments reserve

Equity-settled share-based payment transactions are measured at the fair value of the services received, and the corresponding increase in equity is recorded. EnQuest PLC shares held by the Group in the Employee Benefit Trust are recognised at cost and are deducted from the share-based payments reserve. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of equity shares.

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2019	1,694,406,148	118,182	227,149	345,331
Issuance of equity shares	1,395,807	89	–	89
At 31 December 2019	**1,695,801,955**	**118,271**	**227,149**	**345,420**

At 31 December 2019, there were 43,232,936 shares held by the Employee Benefit Trust (2018: 73,180,394). 1,012,658 shares were issued across 2019 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. The Employee Benefit Trust acquired 22,126,481 shares pursuant to the rights issue. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of 2018.

21. Share-based payment plans

Accounting policy

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

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

The cost of these equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value of awards is calculated in reference to the scheme rules at the 'market value', being the average middle market quotation of a share for the three immediately preceding dealing days as derived from the Daily Official List of the London Stock Exchange, provided such dealing days do not fall within any period when dealings in shares are prohibited because of any dealing restriction. The fair values of awards granted to employees during the year are based on the 'market value' on the date of grant, or date of invitation in respect to the Sharesave Plan.

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

21. Share-based payment plans continued

In valuing the transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of EnQuest PLC (market conditions) or 'non-vesting' conditions, if applicable. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not previously recognised for the award at that date is recognised in the statement of comprehensive income.

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

	2019 $'000	2018 $'000
Deferred Bonus Share Plan	**303**	649
Restricted Share Plan	**580**	668
Performance Share Plan	**3,988**	2,126
Sharesave Plan	**858**	801
Executive Director bonus awards	**159**	401
	5,888	4,645

The following disclosure and tables show the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which been exercised and are exercisable at the end of each year. The awards were adjusted at the time for the effect of the rights issue in 2018.

Deferred Bonus Share Plan ('DBSP')

Eligible employees are invited to participate in the DBSP scheme. Participants may be invited to elect or, in some cases, be required, to receive a proportion of any bonus in Ordinary shares of EnQuest (invested awards). Following such award, EnQuest will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of invested shares (matching shares). The awards granted will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. Awards, both invested and matching, are forfeited if the employee leaves the Group before the awards vest.

The fair values of DBSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2019	2018
Weighted average fair value per share	**36p**	36p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**2,147,103**	2,631,797
Granted during the year[i]	**–**	1,005,150
Exercised during the year[ii]	**(1,127,850)**	(1,415,219)
Forfeited during the year	**(93,743)**	(74,625)
Outstanding at 31 December	**925,510**	2,147,103
Exercisable at 31 December	**–**	14,014

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the DBSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 316,128 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 0.6 years (2018: 0.9 years).

Restricted Share Plan ('RSP')

Under the RSP scheme, employees are granted shares in EnQuest over a discretionary vesting period at the discretion of the Remuneration Committee of the Board of Directors of EnQuest, which may or may not be subject to the satisfaction of performance conditions. Awards made under the RSP will vest over periods between one and four years. At present, there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future.

The fair values of RSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2019	2018
Weighted average fair value per share	**31p**	32p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**12,672,753**	12,284,572
Granted during the year[i]	**45,303**	2,366,019
Exercised during the year[ii]	**(7,826,383)**	(884,217)
Forfeited during the year	**(43,374)**	(1,093,621)
Outstanding at 31 December	**4,848,299**	12,672,753
Exercisable at 31 December	**2,822,934**	4,037,914

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the RSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 1,812,650 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 2.6 years (2018: 5.0 years).

Performance Share Plan ('PSP')

Under the PSP, the shares vest subject to performance conditions. The PSP share awards granted during the year had four sets of performance conditions associated with them: 30% of the award relates to Total Shareholder Return ('TSR') against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 30% relates to reduction in net debt; 30% relates to production growth; and 10% relates to 2P reserve additions over the three-year performance period. Awards will vest on the third anniversary.

The fair values of PSP awards granted to employees during the year, based on the defined market value on the date of grant and which allow for the effect of the TSR condition which is a market-based performance condition, are set out below:

	2019	2018
Weighted average fair value per share	**27p**	32p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**77,898,199**	65,192,493
Granted during the year[i]	**33,000,603**	27,700,837
Exercised during the year[ii]	**(19,644,786)**	(951,548)
Forfeited during the year	**(21,616,318)**	(14,043,583)
Outstanding at 31 December	**69,637,698**	77,898,199
Exercisable at 31 December	**3,852,953**	3,540,460

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 11,318,326 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 6.3 years (2018: 4.0 years).

Sharesave Plan

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

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21. Share-based payment plans continued
The fair values of Sharesave awards granted to employees during the year, based on the defined market value on the date the invitation for the scheme opens, are shown below:

	2019	2018
Weighted average fair value per share	22p	26p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	35,747,677	12,834,269
Granted during the year[i]	39,101,971	26,069,708
Exercised during the year[ii]	(6,385,608)	(1,614,746)
Forfeited during the year	(25,874,518)	(1,541,554)
Outstanding at 31 December	42,589,522	35,747,677
Exercisable at 31 December	2,879,900	–

(i) On 22 October 2018, at its discretion, the Company increased the number of options receivable by participants in the Sharesave Plan by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 5,235,954 additional shares. The exercise price of outstanding options was also reduced by multiplying by a factor 0.8546. The incremental fair value of these adjustments is being expensed over the remaining vesting period of the options to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share options outstanding as at 31 December 2019 was 2.8 years (2018: 2.6 years).

Executive Director bonus awards
As detailed in the Directors' Remuneration Report, the remuneration of the Executive Directors includes the participation in an annual bonus plan. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

The fair value of the Executive Director bonus awards granted during the year, based on the defined market value on the date of grant, are set out below:

	2019	2018
Weighted average fair value per share	28p	39p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	3,159,786	2,445,722
Granted during the year[i]	138,483	714,064
Exercised during the year[ii]	(1,334,815)	–
Outstanding at 31 December	1,963,454	3,159,786
Exercisable at 31 December	1,526,678	1,949,074

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 459,112 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 0.6 years (2018: 0.6 years).

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22. Contingent consideration

During 2019, the Group reviewed the contingent consideration and, as a result, have disaggregated the contingent consideration from provisions in light of its underlying uncertainty regarding its timing and amount. This note encompasses all the required information on the liabilities in order to provide users with an enhanced understanding of the liabilities. The contingent consideration has been extracted from the provisions table, including the comparative information, as disclosed below.

	Magnus 25% $'000	Magnus 75% $'000	Magnus decommissioning–linked liability $'000	Total $'000
At 1 January 2018	69,754	—	—	69,754
Acquisitions (see note 30)	—	625,296	—	625,296
Change in fair value	9,723	—	—	9,723
Unwinding of discount	3,042	1,263	—	4,305
Utilisation	(48,642)	—	—	(48,642)
At 31 December 2018	33,877	626,559	—	660,436
Reclassification from provisions (see note 23)	—	—	12,583	12,583
At 1 January 2019	33,877	626,559	12,583	673,019
Change in fair value (see note 5(e))	—	13,500	2,020	15,520
Unwinding of discount (see note 6)	914	54,993	1,258	57,165
Utilisation	(34,791)	(53,652)	—	(88,443)
At 31 December 2019	—	641,400	15,861	657,261
Classified as:				
Current	—	108,840	2,871	111,711
Non–current	—	532,560	12,990	545,550
	—	641,400	15,861	657,261

75% Magnus acquisition contingent consideration

On 1 December 2018, EnQuest completed the acquisition of the additional 75% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') (see note 30) which was part funded through a vendor loan and profit share arrangement with BP. This acquisition followed from the acquisition of initial interests completed in December 2017.

The consideration for the acquisition was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 million deferred consideration financed by BP. The deferred consideration, which is repayable solely out of cash flows which are in excess of operating cash flows from Magnus, is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the deferred consideration. The consideration also included a contingent profit sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. Together, the deferred consideration and contingent profit sharing arrangement are known as contingent consideration.

The fair value of contingent consideration has been determined by calculating the present value of the future expected cash flows using the assumptions detailed in '*Key assumptions used in calculations*' (see note 2). The contingent consideration was fair valued at 31 December 2019, which resulted in an increase in fair value of $13.5 million, reflecting the Group's expectations of continued strong performance at Magnus, and unwinding of discount of $55.0 million was charged to finance costs during the period, both recognised through remeasurements and exceptional items in the consolidated income statement. The contingent profit sharing arrangement cap of $1 billion has been reached in the present value calculations at both year ends. A total of $53.7 million was repaid during 2019. At 31 December 2019, the contingent consideration was $641.4 million (31 December 2018: $626.6 million).

Management has considered alternative scenarios to assess the valuation of the contingent consideration including, but not limited to, the key accounting estimate relating to oil price and the interrelationship with production and the profit share arrangement. As detailed in key accounting estimates, a reduction or increase in the price assumptions of 10% are considered to be reasonably possible changes, resulting in a reduction of $97.8 million or an increase of $54.3 million to the contingent consideration, respectively (2018: reduction of $110.0 million and increase of $61.9 million, respectively). The change in value represents a change in timing of cash flows, with the contingent profit sharing arrangement cap of $1 billion reached in both sensitivities.

The payment of contingent consideration is limited to cash flows generated from Magnus. Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset. By reference to the conditions existing at 31 December 2019, the maturity analysis of the loan is disclosed in Risk management and financial instruments — liquidity risk (note 27).

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

22. Contingent consideration continued

25% Magnus acquisition contingent consideration

On 1 December 2017, the acquisition of the initial 25% interest in the Magnus and associated interests was funded through a vendor loan from BP (see note 30). The loan was repayable solely out of cash flows, which are in excess of the operating cash flows from the acquired assets, and was secured over the interests in the Transaction assets. The loan accrued interest at a rate of 5.0% per annum on the base consideration. The fair value was estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment of around three years. During 2018, a change in fair value of $9.7 million was recognised within finance costs. A total of $34.8 million was repaid during 2019 (2018: $48.6 million) with no remaining liability recognised as at 31 December 2019.

Magnus decommissioning–linked contingent consideration

As part of the Magnus and associated interests acquisition, EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2019, the amount due to BP by reference to 30% of BP's decommissioning costs on Magnus on an after–tax basis was $15.9 million (2018: $12.6 million).

23. Provisions

Accounting policy

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation: to dismantle and remove a facility or an item of plant; to restore the site on which it is located; and when a reasonable estimate of that liability can be made. The Group's provision primarily relates to the future decommissioning of production facilities and pipelines.

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

These provisions have been created based on internal and third–party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices, which are inherently uncertain. See 'Key sources of estimation uncertainty' and 'Key assumptions used in calculations' in note 2.

Other

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

	Decommissioning provision $'000	Cost recovery provision $'000	Surplus lease provision $'000	Other provisions $'000	Total $'000
At 1 January 2018	639,251	23,911	2,886	–	666,048
Additions during the year	–	–	–	41,856	41,856
Changes in estimates	29,908	(7,947)	–	657	22,618
Unwinding of discount	12,617	260	8	–	12,885
Utilisation	(10,036)	(5,261)	(409)	–	(15,706)
Classification update	–	(5,068)	–	4,214	(854)
Foreign exchange	–	–	(141)	–	(141)
At 31 December 2018	**671,740**	**5,895**	**2,344**	**46,727**	**726,706**
Adjustment on adoption of IFRS 16 (note 2)	**–**	**–**	**(2,344)**	**–**	**(2,344)**
Reclassification to contingent consideration (note 22)	**–**	**–**	**–**	**(12,583)**	**(12,583)**
At 1 January 2019	**671,740**	**5,895**	**–**	**34,144**	**711,779**
Additions during the year	**–**	**–**	**–**	**22,500**	**22,500**
Changes in estimates	**37,879**	**(5,895)**	**–**	**5,295**	**37,279**
Unwinding of discount	**13,410**	**–**	**–**	**671**	**14,081**
Utilisation	**(11,131)**	**–**	**–**	**(11,837)**	**(22,968)**
Foreign exchange	**–**	**–**	**–**	**288**	**288**
At 31 December 2019	**711,898**	**–**	**–**	**51,061**	**762,959**
Classified as:					
Current	**45,519**	**–**	**–**	**11,250**	**56,769**
Non–current	**666,379**	**–**	**–**	**39,811**	**706,190**
	711,898	**–**	**–**	**51,061**	**762,959**

Decommissioning provision

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2042, assuming no further development of the Group's assets. At 31 December 2019, an estimated $155.6 million is expected to be utilised between one and five years, $339.8 million within six to ten years, and the remainder in later periods.

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

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2019 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2019, the Group held surety bonds totalling $131.6 million (2018: $123.2 million).

Cost recovery provision

As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If, on 1 January 2017, KUFPEC's costs to first production had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid until the capital costs to first production have been recovered. As at 31 December 2019, there was no further cost recovery, as per the agreement, and the provision was released against the corresponding balance in property, plant and equipment.

Surplus lease provision

In June 2015, the Group entered a 20-year lease in respect of the Group's office building in Aberdeen, with part of the building subsequently being sub-let with a rent-free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space. On the adoption of IFRS 16, the impact of a surplus or onerous lease is assessed as part of the value of the right-of-use asset, within property, plant and equipment. The provision was assessed on transition and taken through equity (see note 2).

Other provisions

In 2017, EnQuest had the option to receive $50 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 6.0% of the gross decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 and recognised within provisions. At 31 December 2019, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron on an after-tax basis was $39.8 million (2018: $33.6 million). Unwinding of discount of $0.9 million is included within finance income for the year ended 31 December 2019 (2018: $0.7 million).

During 2019, the Group finalised and settled the historical breach of warranty claims with KUFPEC, the Group's field partner in respect of Alma/Galia. The settlement completed all outstanding claims and a provision of $22.5 million was recognised for the payments to be made to KUFPEC. A total of $6.9 million had been provided in previous years, resulting in the remaining $15.6 million being taken to the statement of comprehensive income through remeasurements and exceptional items. A total of $11.2 million was paid during 2019. At 31 December 2019, the provision was $11.3 million.

24. Leases

Accounting policy applicable from 1 January 2019

As a lessee

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

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

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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24. Leases continued

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

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

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

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

As a lessor

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

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

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

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

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

Accounting policy before 1 January 2019

Under IAS 17, the determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

As a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Lease charter payment credits, arising from the non-performance of the leased asset, are recognised as an operating expense in the income statement for the period to which they relate.

Some leases held by the Group contain extension options, exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options and reassesses if there is a significant event or significant changes in circumstances within its control.

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

As a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

	Right-of-use assets $'000	Lease liabilities $'000
As at 31 December 2018	**–**	**708,950**
Finance lease reclassification	690,742	–
IFRS 16 recognition adjustment	60,527	60,527
Additions in the period	24,587	24,587
Depreciation expense	(90,657)	–
Interest expense	–	55,686
Payments	–	(135,125)
Foreign exchange movements	–	1,541
As at 31 December 2019	**685,199**	**716,166**
Current		101,348
Non-current		614,818
		716,166

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of 7.1 years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	90,657
Interest expense on lease liabilities	55,689
Rent expense — short-term leases	2,646
Rent expense — leases of low-value assets	28
Rent expense — variable lease payments not included in measurement of lease liabilities	–
Total amounts recognised in profit or loss	**149,020**

Amounts recognised in statement of cash flows

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Total cash outflow for leases	**135,125**	144,820

Leases as lessor (IFRS 16)
The Group sub-leases part of Annan House, the Aberdeen office. The sub-lease is classified as an operating lease, as all the risks and rewards incidental to the ownership of the right-of-use asset are not all substantially transferred to the lessee. Rental income recognised by the Group during 2019 was $1.3 million (2018: $1.1 million).

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

	2019 $'000	2018 $'000
Less than one year	**1,635**	1,540
One to two years	**1,762**	1,635
Two to three years	**1,762**	1,762
Three to four years	**1,762**	1,762
Four to five years	**1,762**	1,762
More than five years	**1,147**	2,909
Total undiscounted lease payments	**9,830**	11,370

25. Commitments and contingencies
Commitments
At 31 December 2019, the Group had capital commitments amounting to $17.9 million (2018: $15.7 million).

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

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

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

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

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2019 (2018: none).

Share subscription
In 2018, subscription for new Ordinary shares pursuant to the rights issue (see note 20) at the issue price of £0.21 per share:
- Double A Limited ('Double A'), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the rights issue, subscribing for 43,849,727 shares;
- Double A participated in the rump placing for 5,000,000 shares; and
- Directors and key management personnel took up their entitlement in the rights issue, subscribing for 382,273 shares.

Office sub-lease
During the year ended 31 December 2019, the Group recognised $0.1 million (2018: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management, a company where 72% of the issued share capital is held by Amjad Bseisu.

Contracted services
During the year ended 31 December 2018, the Group obtained contracting services from Influit UK Production Solutions for a value of $0.06 million. No services were provided during 2019. Amjad Bseisu has an indirect interest in Influit UK Production Solutions.

Compensation of key management personnel
The following table details remuneration of key management personnel of the Group. Key management personnel comprise of Executive and Non-Executive Directors of the Company and the Executive Committee.

	2019 $'000	2018 $'000
Short-term employee benefits	**7,584**	7,052
Share-based payments	**1,245**	1,300
Post-employment pension benefits	**199**	218
	9,028	8,570

27. Risk management and financial instruments

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

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2019 and 2018, using the amounts of debt and other financial assets and liabilities held at those reporting dates.

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

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

Details of the commodity derivative contracts entered into during and open at the end of 2019 are disclosed in note 19.

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

	Pre-tax profit		Total equity	
	+$10/bbl increase $'000	-$10/bbl decrease $'000	+$10/bbl increase $'000	-$10/bbl decrease $'000
31 December 2019	**(22,894)**	**20,500**	**(22,894)**	**20,500**
31 December 2018	(40,310)	45,146	(40,310)	45,146

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency and the retail bond which is denominated in Sterling. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 6% (2018: 3%) of the Group's sales and 95% (2018: 42%) of costs (including operating and capital expenditure and general and administration costs) are denominated in currencies other than the functional currency. In the prior year, the accounting entries for the Magnus acquisition were in US Dollars, therefore reducing the ratio of non-US Dollar denominated costs.

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures.

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

	Pre-tax profit	
	+$10% rate increase $'000	-$10% rate decrease $'000
31 December 2019	**(21,893)**	**21,893**
31 December 2018	(41,852)	41,852

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For the year ended 31 December 2019

27. Risk management and financial instruments continued

Credit risk

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

In addition, there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas companies and at 31 December 2019 there were $2.4 million of trade receivables past due (2018: $5.0 million), $0.1 million of joint venture receivables past due (2018: $1.6 million) and $nil (2018: $nil) of other receivables past due but not impaired. Subsequent to year end, $2.4 million of these outstanding balances have been collected (2018: $4.6 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	2019 $'000	2018 $'000
Less than 30 days	**381**	4,649
30—60 days	**60**	16
60—90 days	**—**	8
90—120 days	**8**	—
120+ days	**2,056**	1,933
	2,505	6,606

At 31 December 2019, the Group had four customers accounting for 84% of outstanding trade receivables (2018: three customers, 81%) and two joint venture partners accounting for 26% of outstanding joint venture receivables (2018: two joint venture partners, 41%).

Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of its borrowings. Specifically, the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants. At 31 December 2019, $68.2 million (2018: $68.4 million) was available for drawdown under the Group's credit facility (see note 18).

The following tables detail the maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis and include future interest payments.

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

Year ended 31 December 2019	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	**—**	**228,991**	**527,419**	**4,121**	**—**	**760,531**
Bonds[(i)]	**—**	**67,545**	**67,545**	**1,035,022**	**—**	**1,170,112**
Contingent considerations	**—**	**114,152**	**89,607**	**266,563**	**621,929**	**1,092,251**
Obligations under finance leases (IFRS 16)	**—**	**152,306**	**132,294**	**350,492**	**281,915**	**917,007**
Trade and other payables	**—**	**326,035**	**—**	**—**	**46,763**	**372,798**
	—	**889,029**	**816,865**	**1,656,198**	**950,607**	**4,312,699**

Year ended 31 December 2018	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	—	364,135	272,189	546,611	—	1,182,935
Bonds[(i)]	—	34,234	36,521	1,229,314	—	1,300,069
Contingent considerations	—	69,093	116,686	306,528	631,470	1,123,777
Obligations under finance leases (IAS 17)	—	93,169	69,689	243,811	302,282	708,951
Trade and other payables	—	419,855	18,209	—	50,412	488,476
	—	980,486	513,294	2,326,264	984,164	4,804,208

(i) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than $65/bbl for the six months preceding one month before the coupon payment date (see note 18)

The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis. When the amount receivable or payable is not fixed, the amount disclosed has been determined by reference to a projected forward curve at the reporting date.

Year ended 31 December 2019	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	**1,849**	**6,398**	**4,387**	**—**	**—**	**12,634**
Foreign exchange derivative contracts	**—**	**(1,932)**	**—**	**—**	**—**	**(1,932)**
	1,849	**4,466**	**4,387**	**—**	**—**	**10,702**

Year ended 31 December 2018	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	10,069	52,382	1,852	—	—	64,303
Chooser contract	—	249	—	—	—	249
Interest rate swaps	(837)	9,542	—	—	—	8,705
	9,232	62,173	1,852	—	—	73,257

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as in the Group statement of changes in equity.

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

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, the Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 60% in the following 12-month period and 50% in the subsequent 12-month period. This is designed to reduce the risk of adverse movements in exchange rates and market prices eroding the return on the Group's projects and operations.

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

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows. Further information relating to the movement year-on-year is provided within the relevant notes and within the Financial Review (pages 28 to 33).

	2019 $'000	2018 $'000
Loans, borrowings and bond[(i)] (A) (see note 18)	**1,633,441**	2,048,498
Cash and short-term deposits (see note 14)	**(220,456)**	(240,604)
Net debt/(cash) (B)	**1,412,985**	1,807,894
Equity attributable to EnQuest PLC shareholders (C)	**559,061**	983,552
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(449,301)**	127,278
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**214,340**	78,195
Gross gearing ratio (A/C)	**2.9**	2.1
Net gearing ratio (B/C)	**2.5**	1.8
Shareholders' return on investment (D/C)	**(80%)**	13%
Shareholders' return on investment excluding exceptionals (E/C)	**38%**	8%

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

Notes to the Group Financial Statements continued
For the year ended 31 December 2019

28. Subsidiaries
At 31 December 2019, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Heather Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited(i)	Intermediate holding company	England	100%
Grove Energy Limited[1]	Intermediate holding company	Canada	100%
EnQuest ENS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS(i)[2]	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited(i)	Leasing	England	100%
EQ Petroleum Sabah Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited(i)	Dormant	England	100%
EnQuest Energy Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EQ Petroleum Production Malaysia Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited[3]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited(i)[4]	Provision of Group manpower and contracting/procurement services for the International business	Jersey	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited(i)	Dormant	England	100%
EnQuest UK Limited(i)	Dormant	England	100%
EnQuest Petroleum Developments Malaysia SDN. BHD(i)[5]	Exploration, extraction and production of hydrocarbons	Malaysia	100%
EnQuest NNS Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest NNS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Advance Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Advance Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Forward Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Forward Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

The Group has three branches outside the UK (all held by subsidiary undertakings): EnQuest Global Services Limited (Dubai); EnQuest Petroleum Production Malaysia Limited (Malaysia); and EQ Petroleum Sabah Limited (Malaysia).

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, Scotland, AB11 5QP, United Kingdom
4 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
5 c/o TMF, 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

29. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Profit/(loss) before tax		**(729,113)**	93,985
Depreciation	5(c)	**8,207**	5,287
Depletion	5(b)	**525,145**	437,104
Exploration costs impaired/(reversed) and written off	4	**150**	1,407
Net impairment (reversal)/charge to oil and gas assets	4	**812,448**	126,046
Write down of inventory		**14,588**	5,837
Write down of asset	4	**415**	3,602
Loss on fair value of purchase option	4	**–**	1,329
Gain on step acquisition accounting for 25% of Magnus and other interests	4	**–**	(74,345)
Impairment (reversal)/charge to investments	4	**20**	121
Share-based payment charge	5(f)	**5,888**	4,645
Change in contingent consideration	22	**72,685**	14,028
Change in surplus lease provision		**–**	8
Change in decommissioning provision	23	**13,410**	12,617
Change in other provisions		**16,301**	(3,907)
Amortisation of option premiums	19	**(4,936)**	17,208
Unrealised (gain)/loss on commodity financial instruments	5(a)	**65,375**	(97,432)
Unrealised (gain)/loss on other financial instruments	5(b)	**378**	(2,310)
Unrealised exchange loss/(gain)		**15,587**	(21,911)
Net finance (income)/expense		**190,099**	219,191
Operating profit before working capital changes		**1,006,647**	742,510
Decrease/(increase) in trade and other receivables		**(78,056)**	6,844
(Increase)/decrease in inventories		**6,423**	22,255
(Decrease)/increase in trade and other payables		**59,604**	17,020
Cash generated from operations		**994,618**	788,629

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

29. Cash flow information continued

Changes in liabilities arising from financing activities

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
At 1 January 2018	(1,219,675)	(944,875)	(797,933)	(2,962,483)
Adjustment on adoption of IFRS 9	–	(38,117)	–	(38,117)
At 1 January 2018	(1,219,675)	(982,992)	(797,933)	(3,000,600)
Cash movements:				
Cash flows	357,072	–	144,820	501,892
Additions	(175,000)	–	–	(175,000)
Non-cash movements:				
Foreign exchange adjustments	814	11,745	–	12,559
Capitalised PIK	(13,179)	(16,220)	–	(29,399)
Unwinding of finance discount	–	–	(55,837)	(55,837)
Other non-cash movements	(199)	(10,864)	–	(11,063)
Principal reported as at 31 December 2018	**(1,050,167)**	**(998,331)**	**(708,950)**	**(2,757,448)**
Unamortised fees	**3,436**	**8,049**	**–**	**11,485**
Accrued interest	**(3,268)**	**(16,810)**	**–**	**(20,078)**
Carrying value as at 31 December 2018	**(1,049,999)**	**(1,007,092)**	**(708,950)**	**(2,766,041)**
Adjustment on adoption of IFRS 9/IFRS 16	**–**	**16,811**	**(60,527)**	**(43,716)**
At 1 January 2019	**(1,049,999)**	**(990,281)**	**(769,477)**	**(2,809,757)**
Cash movements:				
Repayments of loans and borrowings	**394,025**	**–**	**–**	**394,025**
Repayment of lease liabilities	**–**	**–**	**135,125**	**135,125**
Cash interest paid in year	**64,370**	**67,485**	**–**	**131,855**
Non-cash movements:				
Additions	**–**	**–**	**(24,587)**	**(24,587)**
Unwinding of finance discount	**(67,749)**	**(62,694)**	**(55,686)**	**(186,129)**
Fee amortisation	**(811)**	**(2,591)**	**–**	**(3,402)**
Foreign exchange adjustments	**(1,049)**	**(6,879)**	**(1,541)**	**(9,469)**
Other non-cash movements	**(69)**	**(1,023)**	**–**	**(1,092)**
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**

Reconciliation of carrying value

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
Principal	(661,638)	(971,803)	(716,166)	(2,349,607)
Unamortised fees	2,625	5,572	–	8,197
Accrued interest (note 17)	(2,269)	(29,752)	–	(32,021)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**

30. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method, in accordance with IFRS 3 Business Combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any controlling interest in the acquiree. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 13 Fair Value Measurement. The standard defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly fashion between willing market participants at the measurement date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Finalisation of acquisition fair values, during the measurement period of 12 months from acquisition date, are adjusted against the amounts recognised on acquisition where they qualify as measurement period adjustments.

Where consideration for the acquisition includes a contingent consideration arrangement and is within the scope of IFRS 9, this is recognised as a financial asset or liability at fair value through profit or loss. The contingent consideration is carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss, through 'remeasurements and exceptional items' as the transactions do not relate to the principal activities and day–to–day Business performance of the Group and is presented consistently year–on–year.

Acquisitions in 2018

Acquisition of 75% interest in Magnus oil field and associated interests

On 1 December 2018, EnQuest completed the acquisition from BP of the remaining 75% interest in the Magnus oil field ('Magnus'), an additional 9.0% interest in Sullom Voe Oil terminal and supply facility ('SVT') and other additional interests in associated infrastructure (collectively the 'Transaction assets'), constituting a business. This acquisition followed from the acquisition of initial interests completed in December 2017. The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential.

The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition. The financial results for 2018 include the results of the assets for the one–month period from the acquisition date. Accounts receivable are recognised at gross contractual amounts due, as they relate to large and creditworthy customers. Historically, there has been no significant uncollectible accounts receivable in the Transaction assets.

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment (see note 10)	745,350
Inventory	50,977
Trade and other receivables (see note 16)	2,927
Liabilities	
Trade and other payables (see note 17)	(44,617)
Financial liabilities (see note 19)	(8,370)
Deferred tax liability (see note 7)	(94,634)
Total identifiable net assets	**651,633**
Technical goodwill arising on acquisition	94,633
Purchase option derecognition	(20,970)
Purchase consideration	**725,296**
Purchase consideration transferred:	
Cash transferred	100,000
Deferred consideration: Vendor loan	116,530
Contingent consideration: Future cash flow share arrangement	508,766
Total purchase consideration	**725,296**

Goodwill arising on acquisition

The option to purchase the remaining 75% in Magnus and other interests was included with the acquisition of the initial 25% interest. As at 31 December 2017, the option was recognised as a financial asset of $22.3 million. The option was revalued on exercise on 1 December 2018 to the fair value of the acquisition assets, resulting in a financial asset of $21.0 million. The revaluation of the option in the year resulted in an expense of $1.3 million and has been recognised in the statement of comprehensive income through other income in 'Remeasurements and exceptional items'. The option value captures the ability of EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential and the increase in underlying oil prices during the year.

On acquisition, the option was derecognised as part of the acquisition assets and liabilities. The goodwill of $94.6 million arises principally due to the requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. The assessment of the fair value of property, plant and equipment is based on cash flows after tax. Nevertheless, in accordance with IAS 12 sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, goodwill arises as a technical effect of deferred tax ('technical goodwill'). None of the goodwill recognised will be deductible for income tax purposes.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

30. Business combinations continued

Fair value of consideration

The consideration for the acquisition of the Transaction assets was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 million deferred consideration financed by BP, which are to be repaid out of future cash flows from the assets. With an effective date of 1 January 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of $116.5 million as at 1 December 2018. The deferred consideration is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the base consideration.

The consideration also included a cash flow sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. The present value of the contingent future cash flow share arrangement over the estimated life of the field resulted in the recognition of contingent consideration of $508.8 million.

The present value of the deferred and contingent profit share consideration is calculated from the future expected cash flows, at a discount rate of 10.0%. These are recognised within contingent consideration (see note 22).

From the date of acquisition to the end of 2018, the Transaction assets contributed $41.7 million of revenue and a $1.2 million gain to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2018, revenue from continuing operations would have been an additional $264.7 million and the profit before tax from continuing operations would have been an additional $103.7 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Fair value uplift

The acquisition of the remaining 75% interest is considered a step acquisition as per IFRS 3 Business Combinations. The property, plant and equipment acquired with the initial 25% has been fair valued as at 1 December 2018, recognising an uplift of $123.9 million to property, plant and equipment and a corresponding deferred tax liability of $49.6 million. The gain on uplift of $74.3 million has been recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

31. Subsequent events

Recent market events has resulted in a fall in oil prices and the forward curve, which has been considered within the groups going concern and viability statement (see note 2). If oil prices remain at or below their current levels for an extended period of time, and/or future forecasts for oil prices are lower than those as at 31 December 2019, this would adversely impact our future financial results. A review of fixed asset carrying amounts will be performed during 2020 as part of our interim impairment review based on the prevailing market conditions. Please refer to note 10 for sensitivity analysis regarding the impairments recorded in 2019.

Statement of Directors' Responsibilities for the Parent Company Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Company Balance Sheet

At 31 December 2019

	Notes	2019 $'000	2018 $'000
Fixed assets			
Investments	3	**1,140,962**	1,378,619
Current assets			
Trade and other receivables			
— due within one year	4	**5,649**	6,442
— due after one year	4	**1,099,722**	1,094,298
Cash at bank and in hand		**8**	480
		1,105,379	1,101,220
Trade and other payables: amounts falling due within one year	6	**(123,083)**	(115,303)
Net current assets		**982,296**	985,917
Total assets less current liabilities		**2,123,258**	2,364,536
Trade and other payables: amounts falling due after one year	7	**(966,231)**	(990,283)
Net assets		**1,157,027**	1,374,253
Share capital and reserves			
Share capital and premium	8	**345,420**	345,331
Merger reserve		**661,817**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(1,085)**	(6,884)
Profit and loss account		**110,732**	89,773
Shareholders' funds		**1,157,027**	1,374,253

The attached notes 1 to 11 form part of these Company financial statements.

The Company reported a loss for the financial year ended 31 December 2019 of $239.7 million (2018: gain of $502.7 million). There were no other recognised gains or losses in the period (2018: $nil).

The financial statements were approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital and share premium $'000	Merger reserve $'000	Other reserve $'000	Share-based payments reserve $'000	Profit and loss account $'000	Total $'000
At 31 December 2017 (as previously reported)	210,402	905,890	40,143	(5,516)	(374,800)	776,119
Adjustment on adoption of IFRS 9	—	—	—	—	(38,117)	(38,117)
Balance as at 1 January 2018	210,402	905,890	40,143	(5,516)	(412,917)	738,002
Profit/(loss) for the year	—	—	—	—	502,690	502,690
Total comprehensive income for the year	—	—	—	—	502,690	502,690
Issue of share capital	128,916	—	—	—	—	128,916
Share-based payment charge	—	—	—	4,645	—	4,645
Shares purchased on behalf of Employee Benefit Trust	6,013	—	—	(6,013)	—	—
At 31 December 2018 (as previously reported)	**345,331**	**905,890**	**40,143**	**(6,884)**	**89,773**	**1,374,253**
Adjustment on adoption of IFRS 9	—	—	—	—	16,579	16,579
Balance as at 1 January 2019	**345,331**	**905,890**	**40,143**	**(6,884)**	**106,352**	**1,390,832**
Profit/(loss) for the year	—	—	—	—	(239,693)	(239,693)
Total comprehensive income for the year	—	—	—	—	(239,693)	(239,693)
Issue of share capital	—	—	—	—	—	—
Share-based payment charge	—	—	—	5,888	—	5,888
Shares purchased on behalf of Employee Benefit Trust	89	—	—	(89)	—	—
Impairment of subsidiary undertakings	—	(244,073)	—	—	244,073	—
At 31 December 2019	**345,420**	**661,817**	**40,143**	**(1,085)**	**110,732**	**1,157,027**

Notes to the Financial Statements

For the year ended 31 December 2019

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 8 April 2020.

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company incorporated and registered in England and is the holding company for the Group of EnQuest subsidiaries (together the 'Group').

2. Summary of significant accounting policies

Basis of preparation

These separate financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council. The Company has previously notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

These financial statements are prepared under the historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. The functional and presentation currency of the separate financial statements is US Dollars and all values in the separate financial statements are rounded to the nearest thousand ($'000) except where otherwise stated.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Group accounts.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the parent company. The parent company's accounts present information about it as an individual undertaking and not about its Group.

Going concern

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and, notwithstanding the material uncertainty as provided in note 2 of the Group financial statements, the Directors have a reasonable expectation that the Group and therefore the Company, will be able to continue in operation and meet its commitments as they fall due over the going concern period. See note 2 of the Group financial statements, for further details.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

Critical accounting estimates and judgements

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

Impairment of investments in subsidiaries

Determination of whether investments have suffered any impairment requires an estimation of the assets' recoverable value. The recoverable value is based on the discounted cash flows expected to arise from the subsidiaries' oil and gas assets, using asset-by-asset life of field projections as part of the Group's assessment for the impairment of the oil and gas assets. The Company's investment in subsidiaries is tested for impairment annually. See Group critical accounting estimates and judgements.

Taxation

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

Foreign currencies

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

3. Investments

Accounting policy

Investments in subsidiaries are accounted for at cost less any provision for impairment.

(a) Summary

	2019 $'000	2018 $'000
Subsidiary undertakings	**1,140,951**	1,379,138
Other financial assets at FVPL	**11**	31
Total	**1,140,962**	1,379,169

(b) Subsidiary undertakings

	Subsidiary undertakings $'000
Cost	
At 1 January 2018	1,373,943
Additions	5,194
At 31 December 2018	1,379,138
Additions	**5,886**
At 31 December 2019	**1,385,024**
Provision for impairment	
At 1 January 2018	479,583
Impairment charge/(reversal) for the year	(479,583)
At 31 December 2018	—
Impairment charge/(reversal) for the year	**244,073**
At 31 December 2019	**244,073**
Net book value	
At 31 December 2019	**1,140,951**
At 31 December 2018	1,379,138
At 31 December 2017	894,360

The Company has recognised an impairment of its investment in subsidiary undertakings of $244.1 million (2018: reversal of $479.6 million). The impairment for the year ended 31 December 2019 is attributable primarily to changes to the long-term oil price from $75.0/bbl to $70.0/bbl, revision to reserve profiles (see reserves and resources on page 26) in the Heather/Broom, Thistle/Deveron and the Dons fields, the anticipated cessation of production at Alma/Galia and utilisation of historic tax losses.

Details of the Company's subsidiaries at 31 December 2019 are provided in note 28 of the Group financial statements.

(c) Other financial assets at FVPL

The interest in other listed investments at the end of the year is part of the Group's investment in the Ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales.

4. Trade and other receivables

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Company does not currently hold any financial assets at FVOCI i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

4. Trade and other receivables continued

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Impairment of financial assets

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

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and are based on their historical credit loss experience, adjusted for forward–looking factors specific to the debtors and the economic environment. The Company evaluates the concentration of risk with respect to intercompany receivables as low, as its customers are intercompany ventures, and has considered the risk relating to the probability of default on loans that are repayable on demand. The Company has evaluated an expected credit loss of $0.5 million for the year ended 31 December 2019 (2018: $2.5 million).

	2019 $'000	2018 $'000
Due within one year		
Amounts due from subsidiaries	**5,649**	6,442
Due after one year		
Amounts due from subsidiaries	**1,099,722**	1,094,298

5. Deferred tax

The Company has unused UK mainstream corporation tax losses of $56.8 million (2018: $52.7 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

6. Trade and other payables: amounts falling due within one year

Accounting policy

Financial liabilities

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

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial liabilities at amortised cost

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

	2019 $'000	2018 $'000
Bond interest	**16,992**	16,810
Other interest	**12,761**	–
Amounts due to subsidiaries	**93,185**	98,375
Accruals	**145**	118
	123,083	115,303

7. Trade and other payables: amounts falling due after one year

	2019 $'000	2018 $'000
Bonds	**966,231**	990,283

At 31 December 2019, bonds comprise a high yield bond with principal of $746.1 million (2018: $746.1 million) and a retail bond with principal of £171.9 million (2018: £171.9 million). The bonds mature in April 2022 and pay a coupon of 7.0% bi-annually. See note 18 of the Group financial statements.

8. Share capital and share premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2019	1,694,406,148	118,182	227,149	345,331
Issuance of equity shares	1,395,807	89	–	89
At 31 December 2019	**1,695,801,955**	**118,271**	**227,149**	**345,420**

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

At 31 December 2019, there were 43,232,936 shares held by the Employee Benefit Trust (2018: 73,180,394). 1,012,658 shares were issued across 2019 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. The Employee Benefit Trust acquired 22,126,481 shares pursuant to the rights issue. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of 2018.

9. Reserves

Share capital and share premium

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

Merger reserve

The Company merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued where merger relief applies to the transaction. The reserve is adjusted for any write down in the value of the investment in the subsidiary.

Other reserve

The other reserve is used to record any other transactions taken straight to reserves as non-distributable.

Share-based payments reserve

The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards. Share-based payment plan information is disclosed in note 21 of the Group financial statements.

10. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in note 5(g) of the Group financial statements.

11. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on page 71.

Glossary — Non-GAAP measures

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

Business performance net profit attributable to EnQuest PLC shareholders	2019 $'000	2018 $'000
Reported net profit/(loss) (A)	**(449,301)**	127,278
Adjustments — remeasurements and exceptional items (note 4):		
Unrealised (losses)/gains on oil derivative contracts (note 19)	**(65,375)**	97,432
Unrealised (gains)/losses on foreign exchange derivative contracts (note 19)	**1,684**	(248)
Unrealised (gains)/losses on carbon derivative contracts (note 19)	**(2,062)**	(2,062)
Net impairment (charge)/reversal to oil and gas assets (note 10, 11 and note 12)	**(812,448)**	(126,046)
Unwind of contingent consideration (note 22)	**(57,165)**	(9,590)
Change in contingent consideration (note 22)	**(15,520)**	—
KUFPEC provision (note 23)	**(15,630)**	—
Contingent consideration release	**—**	5,300
Excess of fair value over consideration: Purchase option (note 30)	**—**	(1,329)
Write down of receivable (note 4)	**(415)**	(3,010)
Exploration and evaluation expenses: Written off and impaired (note 11)	**(150)**	(1,407)
Other exceptional items	**(20)**	3,292
Pre-tax remeasurements and exceptional items (B)	**(967,101)**	36,677
Tax on remeasurements and exceptional items (C)	**303,460**	12,406
Post-tax remeasurements and exceptional items (D = B + C)	**(663,641)**	49,083
Business performance net profit attributable to EnQuest PLC shareholders (A – D)	**214,340**	78,195

EBITDA	2019 $'000	2018 $'000
Reported profit/(loss) from operations before tax and finance income/(costs)	**(467,768)**	326,738
Adjustments:		
Pre-tax remeasurements and exceptional items	**909,936**	(36,677)
Depletion and depreciation (note 5(b) and note 5(c))	**533,352**	442,391
Inventory revaluation	**14,588**	5,837
Net foreign exchange (gain)/loss (note 5(d) and note 5(e))	**16,427**	(21,911)
Business performance EBITDA (E)	**1,006,535**	716,378

EBITDA is calculated on a 'Business performance' basis, and is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure.

Total cash and available facilities	2019 $'000	2018 $'000
Available cash	**144,214**	159,646
Ring-fenced cash	**73,985**	77,554
Restricted cash	**2,257**	3,404
Total cash and cash equivalents (F) (note 14)	**220,456**	240,604
Available credit facilities	**535,000**	860,000
Credit facility — Drawn down (appendix)	**(460,000)**	(785,000)
Letter of credit (note 14)	**(6,849)**	(6,640)
Available undrawn facility (G)	**68,151**	68,360
Total cash and available facilities (F + G)	**288,607**	308,964

Net debt	2019 $'000	2018 $'000
Borrowings (note 18):		
Credit facility — Drawn down	**460,000**	785,000
Credit facility — PIK	**15,097**	14,444
Sculptor Capital facility	**120,287**	175,199
Crude oil prepayment	**—**	22,111
SVT working capital facility	**31,899**	15,747
Tanjong Baram project financing facility	**31,730**	31,730
Trade creditor loan	**—**	2,500
Borrowings (H)	**659,013**	1,046,731
Bonds (note 18):		
High yield bond	**741,573**	754,078
Retail bond	**224,658**	236,204
Bonds (I)	**966,231**	990,282
Non-cash accounting adjustments:		
Unamortised fees on loans and borrowings	**2,625**	3,436
Unamortised fees on bonds	**5,572**	8,049
Accounting adjustment due to IFRS 9 Financial Instruments	**—**	(33,407)
Non-cash accounting adjustments (J)	**8,197**	(21,922)
Debt (H + I + J) (K)	**1,633,441**	2,015,091
Less: Cash and cash equivalents (note 14) (E)	**220,456**	240,604
Net debt/(cash) (K — F) (L)	**1,412,985**	1,774,487

Net debt/EBITDA	2019 $'000	2018 $'000
Net debt (L)	**1,412,985**	1,744,487
Business performance EBITDA (E)	**1,006,535**	716,378
Net debt/EBITDA (L/E)	**1.4**	2.5

Cash capex	2019 $'000	2018 $'000
Reported net cash flows (used in)/from investing activities	**(257,838)**	(318,613)
Adjustments:		
Consideration on exercise of Magnus acquisition option	**—**	100,000
Repayment of Magnus contingent consideration — Profit share	**21,581**	—
Interest received	**(1,225)**	(1,599)
Cash Capex	**(237,482)**	(220,213)

Free cash flow	2019 $'000	2018 $'000
Net cash flows from/(used in) operating activities	**962,271**	794,431
Net cash flows from/(used) in investing activities	**(257,838)**	(318,613)
Net cash flows from/(used) in financing activities	**(729,996)**	(403,560)
Adjustments:		
Proceeds of loans and borrowings	**—**	(219,900)
Repayment of loans and borrowings	**394,025**	402,008
Rights Issues proceeds received	**—**	(138,926)
Magnus cash acquisition	**—**	100,000
Free cash flow	**368,462**	215,440

Glossary – Non-GAAP measures continued

Revenue sales	2019 $'000	2018 $'000
Revenue from crude oil sales (note 5) (M)	**1,548,177**	1,237,600
Revenue from gas and condensate sales (note 5) (N)	**120,242**	43,063
Realised (losses)/gains on oil derivative contracts (note 5) (P)	**24,756**	(93,035)

Barrels equivalent sales	2019 kboe	2018 kboe
Sales of crude oil (Q)	**24,098**	17,823
Sales of gas and condensate	**4,082**	116
Total sales (R)	**28,180**	17,939

Average realised prices(i)	2019 $/boe	2018 $/boe
Average realised oil price, excluding hedging (M/Q)	**64.2**	69.4
Average realised oil price, including hedging ((M + P)/Q)	**65.3**	64.2
Average realised blended price, excluding hedging ((M + N)/R)	**59.2**	71.4
Average realised blended price, including hedging ((M + N + P)/R)	**60.1**	66.2

(i) Classification of average realised oil price has been enhanced in the year, excluding those condensate barrels which were included in prior years

Operating costs	2019 $'000	2018 $'000
Reported cost of sales	**1,243,948**	924,302
Adjustments:		
Pre-tax remeasurements and exceptional items	**(378)**	1,718
Depletion of oil and gas assets	**(525,145)**	(437,104)
(Credit)/charge relating to the Group's lifting position and inventory	**(102,853)**	25,093
Other cost of sales	**(97,459)**	(48,068)
Operating costs	**518,113**	465,941
Realised (gain)/loss on derivative contracts	**(1,707)**	(615)
Operating costs directly attributable to production	**516,406**	465,326
Comprising of:		
Production costs (S)	**441,624**	396,880
Tariff and transportation expenses (T)	**74,782**	68,446
Operating costs directly attributable to production	**516,406**	465,326

Barrels equivalent produced	2019 kboe	2018 kboe
Total produced (working interest) (U)	**25,041**	20,238

Unit opex	2019 $/boe	2018 $/boe
Production costs (S/U)	**17.6**	19.6
Tariff and transportation expenses (T/U)	**3.0**	3.4
Total unit opex ((S + T)/U)	**20.6**	23.0