Our purpose

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

OUR STRATEGY

To be the operator of choice for maturing and underdeveloped hydrocarbon assets.

Throughout 2019, EnQuest has focused on delivering on its targets, de–levering the balance sheet and growing through the development of its asset base.

See pages 1, 8 and 10 to 33

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

EnQuest
10 YRS

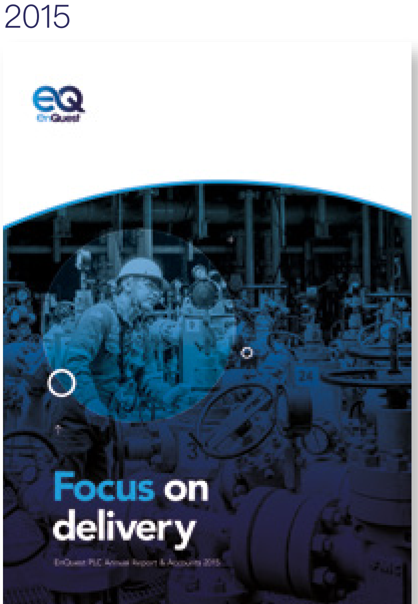
Our ten-year journey...

2010

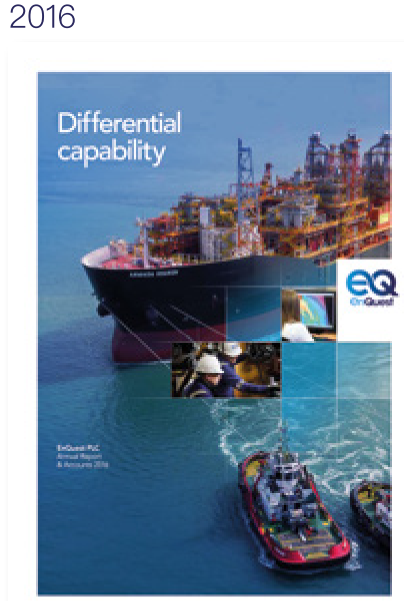
2011

2012

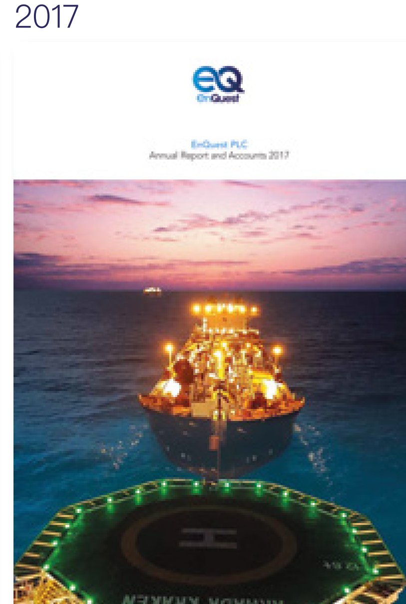
2015



2016



2017

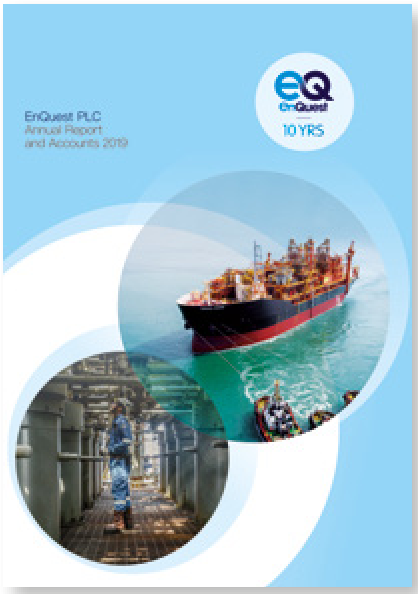


2013

2014

2018

2019



OUR TEN–YEAR JOURNEY...

Over the last ten years, EnQuest has grown its business substantially through a combination of acquisitions and organic developments.

As our business has grown, so too has our reputation as the operator of choice for maturing assets. We have developed differential capabilities in drilling and sub–sea tie–backs, and have a proven track record of improving asset efficiencies and extending field life.

Most importantly, we remain driven to deliver SAFE Results, with no harm to our people and respect for the environment.

Highlights

The Group met its operational targets for 2019, growing production by 24%. This strong operational performance, combined with a focus on cost control and higher realised oil prices, facilitated a significant reduction in the Group's net debt. Given the prevailing low-oil price environment, operational excellence, cost control and capital discipline remain the Group's focus as it targets free cash flow breakeven of c.$33/Boe in 2020 and c.27/Boe in 2021.

2019 PERFORMANCE

Production (Boepd)

68,606
+24%

Unit opex ($/Boe)

21
-10%

EBITDA[1] ($ million)

1,007
+41%

Net 2P reserves (MMboe)

213
-13%

2020 OUTLOOK

Production range (Boepd)

c.57,000 to 63,000

Operating expenditure ($ million)

c.335

Cash capex ($ million)

c.120

See page 13

2019 STATUTORY REPORTING METRICS	2019 $m	2018 $m	Change %
Revenue and other operating income	**1,646.5**	1,298.4	26.8
Profit/(loss) before tax	**(729.1)**	94.0	—
Basic earnings/(loss) per share (cents)[2]	**(27.4)**	9.2	—
Net cash flow from operating activities	**962.3**	794.4	21.1
Net assets	**559.1**	983.6	(43.2)

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary — Non-GAAP measures' starting on page 166
2 2018 has been restated to reflect the impact of the October 2018 rights issue

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

EnQuest 10 YRS

Our ten-year journey

Having started with just three operated offshore production hubs in the UK, EnQuest now operates one onshore oil terminal and eight offshore production hubs encompassing 14 fields in the UK and seven in Malaysia, having diversified its geographical footprint through acquiring initial production licences in Malaysia in 2014.

One of these production hubs is the technically challenging Kraken heavy-oil field, from which we delivered first oil in 2017 and is one of the largest development projects undertaken in recent years in the UK North Sea.

At all of our acquired assets, we have improved the production efficiency and lowered operating costs, demonstrating a consistent track record of improving performance and extending the life of our assets. We have consistently added value in the assets we have acquired.

Since 2009, Group production has grown on average by around 17% per annum, with 2P reserves growing on average by around 10% per annum. We have successfully produced more hydrocarbons than the entire 2P reserves base in place at the time the Company was formed, and we still have around 213 MMboe 2P reserves to extract. The substantial reserves and resources opportunity set we have built is largely expected to be developed through our industry-leading capabilities in drilling and sub-sea tie-backs, with low-cost, short-cycle investments.

c.17%

Compound average production growth since 2009

Where next?

With the decline in oil price in early March 2020, the Group has reviewed each of its assets and related spending plans and is implementing a material operating cost and capital expenditure reduction programme to lower the Group's cost base.

Longer-term, the Group has material reserves and resources within its three largest assets, Magnus, Kraken and PM8/Seligi, that can be accessed through short-cycle drilling projects.

Magnus is a giant field, originally holding around 2 Bnboe in place, a substantial amount of which is not yet recovered. We have already identified a number of potential drilling targets that have been high-graded for future development to mature some of these resources into reserves. With approximately 250 MMboe of additional movable oil in place, we expect to identify, mature and high-grade many more targets and ultimately migrate volumes through the resource funnel and into production.

Kraken's western area holds an estimated 70—130 MMbbls of STOIIP and is the focus of the Group's next stage of development at this field. In 2020, we will drill a producer-injector pair into the Worcester area. We are continuing to evaluate the remaining western area opportunities for future development opportunities, including the Maureen sands which lie directly beneath the existing reservoirs.

PM8/Seligi is another giant field with around 2 Bnboe originally in place. We will continue with our successful idle well restoration programme, while assessing options for a multi-year drilling campaign to drive production growth in the future. Our proven mature field capability makes us a valuable partner for PETRONAS and other potential co-venturers in the future.

Outside of our organic opportunities, we will continue to look at right-priced acquisitions that match our proven capabilities to allow us to unlock additional value, which can be further enhanced through our tax position in the UK.

And we will do all of this in a world that is changing. Climate change and emissions reductions are clearly areas of focus for the Company. We believe our place within the wider energy transition is to improve performance and efficiencies at already producing assets through short-cycle investments, avoiding the need for costly, carbon-intensive and long-dated new developments. Current legislation requires that the UK achieves net-zero by 2050. EnQuest is committed to contributing positively towards achieving this target. In 2020, a systematic programme of work is being undertaken to put in place plans that will deliver a pathway to support this. These plans will include specific, measurable emissions reduction targets, supported by specific projects, which will form the basis of our 2021 corporate targets, as well as an additional carbon cost to be included in capital allocation decisions.

NORTH SEA OPERATIONS BREAKDOWN

1
onshore terminal

c.221
MMboe of net 2P reserves added

68
wells drilled and completed by EnQuest

7
operated production hubs

c.110
MMboe produced (net)

MALAYSIA OPERATIONS BREAKDOWN

c.33
MMboe of net 2P reserves added

2
production sharing contracts

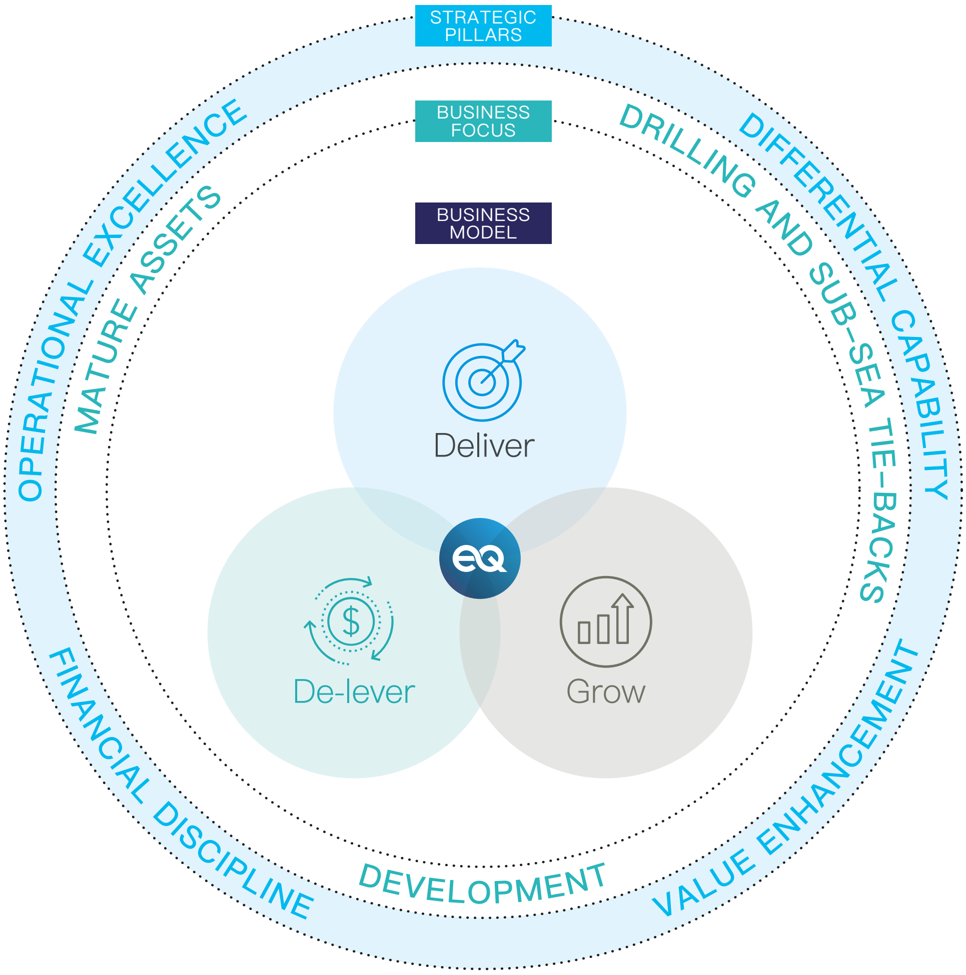
74
idle wells returned to production by EnQuest

13
operated offshore platforms

c.14
MMboe produced (net)

Strategy and business model

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



s.172 Statement

The Board has always had regard for the potential impact of the Group's activities on its various stakeholders, gathering relevant information and feedback throughout the year from information provided by the Group's Executive Directors, senior and functional management and through direct engagement when appropriate. As such, the Board is able to fulfil its duty to promote the long-term success of the Company for its shareholders and other stakeholders.

The Board considers the following to be principal decisions on the basis of materiality of the incremental impact these are anticipated to have on a number of stakeholders and/or the Company:

Principal decision	Impacted stakeholder
Appointment of a new Chairman	A, B, D
Establishment and operation of a global employee forum	A, B, D
Kraken Floating, Production, Storage and Offloading ('FPSO') improvement plan	A, B, C, E, G
Sanctioning the next phase of development at Kraken	A, B, C, E, G

Stakeholder	Why they are important	2019 activities
A. Workforce	Our employee and contractor workforce are critical to the delivery of SAFE Results and EnQuest's success. As such, we are committed to ensuring EnQuest remains a great place to work. We have a strong set of Values that underpin our way of working and are dedicated to delivering SAFE Results. We provide a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy.	See pages 38 to 40 of the Corporate responsibility review which details the various people-related engagement activities and initiatives implemented during the year, including the Group-wide employee forum and engagement survey, along with the Group's transformation programme at the Sullom Voe Terminal in the UK.
B. Investors	Our investors support management in the execution of EnQuest's business strategy, including the provision of capital for management to develop the business in order to deliver growth and returns in a responsible manner.	See the Strategic report on pages 22 to 33 which explains the Company's performance and investment decisions during 2019, pages 93 to 95 for the Nomination Committee report, which details the succession planning and appointment of the Chairman, and page 61 of the Corporate governance statement which outlines how the Group engages with its investors.
C. Partners	We collaborate with our Joint Venture partners, securing their support to deliver our asset plans. We value their contribution to the effective operational and financial management of our assets as we deliver on our business strategy.	The Group has regular engagement with its Joint Venture partners on day-to-day asset management and the execution of the longer-term asset strategy. This occurs through a combination of formal interactions, governed by Joint Operating Agreements, and via informal engagement, including sharing of relevant industry experience, insights and best practice and/or developing performance improvement initiatives. See pages 22 to 33 of the Strategic report for further details on operational and financial activities undertaken across our assets, including the Kraken FPSO improvement plan and the Worcester development. Joint venture partners are recognised as one of the Group's principal risks and uncertainties on page 51.
D. Host governments and regulators	EnQuest works closely with the host governments and regulators in the jurisdictions in which it operates. We comply with the necessary regulatory requirements, including those related to environmental matters such as minimising emissions, to ensure the Company maintains a positive reputation and licence to operate, enabling the effective delivery of the Group's plans for its existing portfolio and providing access to appropriate growth opportunities.	For further details, see the Strategic report on pages 22 to 33 and the Group's principal risks and uncertainties on pages 45 to 53, which outline EnQuest's strong relationships with governments and regulators, and pages 34 to 43 of the Corporate responsibility review and pages 100 to 101 of the Directors' report for further details on the Group's regulatory compliance activities.
E. Suppliers	EnQuest relies on its suppliers to provide specialist equipment and services, including skilled manpower, to assist in the delivery of SAFE Results.	The Group has continued its active and positive engagement with its suppliers through various supplier forums, performance reviews, ad hoc meetings, industry events and various contract awards, including those related to the Kraken improvement plan and western area development. The Company continues to monitor and report its supplier payment performance. Please also see the Group's principal risks and uncertainties on pages 44 to 53, a number of which are impacted by the Group's supplier relationships.
F. Communities	Making a positive contribution and appropriately managing our environmental impact in the communities in which we live and work around the world remains a key part of our activities. Our communities provide a potential source of employees, contractors and support services, and are important in supporting EnQuest's social licence to operate and maintaining a positive reputation.	For further details on the Group's community engagement and environmental considerations, see pages 34 to 41 of the Corporate responsibility review, with the importance of maintaining a positive reputation outlined in the Group's principal risks and uncertainties on page 46.
G. Customers	Our customers help facilitate the provision of hydrocarbon-related products to meet a variety of consumer demands and, as such, require a reliable supply of hydrocarbons to meet their needs.	The Company has maintained strong relationships with its existing customers and has successfully expanded its customer base to supply Kraken oil to fuel oil blenders as an unrefined constituent of IMO 2020 compliant low-sulphur bunker fuel. By selling directly to the fuel oil market, Kraken cargoes avoid refining-related emissions.

Key performance indicators

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

+32.6%

2019	0.57
2018	0.43
2017	0.46

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

Link to strategic pillars

B: Production
Boepd

+23.7%

2019	68,606
2018	55,447
2017	37,405

Production was 23.7% higher than in 2018. Increased production from Magnus, Kraken, Scolty/Crathes and PM8/Seligi was partially offset by safety–related shutdowns at Thistle and Heather and underlying natural declines elsewhere in the portfolio.

Link to strategic pillars

C: Unit opex[2]
$/Boe

-10.4%

2019	20.6
2018	23.0
2017	25.6

Average unit operating costs were 10.4% lower than in 2018 ($23.0/Boe), primarily as a result of increased production.

Link to strategic pillars

D: EBITDA[2]
$ million

+40.5%

2019	1,006.5
2018	716.3
2017	303.6

Higher production from Magnus and Kraken combined with increased realised prices, reflecting the impact of the Group's commodity hedge programme, increased EnQuest's EBITDA.

Link to strategic pillars

E: Cash generated by operations
$ million

+26.1%

2019	994.6
2018	788.6
2017	327.0

Cash generated by operations was 26.1% higher than in 2018, primarily reflecting higher EBITDA.

Link to strategic pillars

F: Cash capex[2]
$ million

+7.9%

2019	237.5
2018	220.2
2017	367.6

Cash capex was 7.9% higher than in 2018, primarily driven by drilling programmes at Kraken, Magnus and PM8/Seligi and the Scolty/Crathes and Dunlin bypass sub–sea pipeline projects.

Link to strategic pillars

G: Net debt[2]
$ million

-20.4%

2019	1,413.0
2018	1,774.5
2017	1,991.4

Net debt decreased by 20.4% compared to 2018, primarily reflecting the improved cash–generating capability of the Group with increased contributions from Magnus and Kraken. The Group has continued to voluntarily make early repayments of its senior credit facility.

Link to strategic pillars

H: Net 2P reserves
MMboe

-13.3%

2019	213
2018	245
2017	210

Net 2P reserves decreased by 13.3% compared to 2018. During the year, the Group produced 9.6% of its year–end 2018 2P reserves base, with downward revisions at Heather/Broom and Thistle almost entirely offset by additions at the Group's growth assets, Magnus, Kraken and PM8/Seligi.

Link to strategic pillars

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)
2 See reconciliation of alternative performance measures within the 'Glossary — Non–GAAP measures' starting on page 166.

Values

These Are What Connect Us

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

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

WORKING COLLABORATIVELY

RESPECT & OPENNESS

SAFE RESULTS

GROWTH & LEARNING

DRIVING A FOCUSED BUSINESS

The next chapter...

Martin Houston explains what attracted him to the role of EnQuest Chairman

Q

What attracted you to the role of Chairman at EnQuest?

A

EnQuest is a proven operator of mature assets, led by an experienced management team and has excellent people who are focused on delivering its strategy.

Over the last two years, significant progress has been made in strengthening the balance sheet as operational performance, cost control and capital discipline have generated the cash flows required to significantly reduce the Group's debt.

The resource opportunities at Magnus, Kraken and PM8/Seligi are aligned with the Group's particular set of capabilities in delivering low-cost, quick payback and high-return drilling and sub-sea tie-backs to generate value for our stakeholders.

As majors and other operators continue to shift their focus from mature basins in a number of geographies, I am confident there will be further opportunities for the Company to access additional resources and I am excited to be a part of the next phase of its development.

Q

What was the highlight for you from 2019?

A

2019 has been a year of strong operational and financial performance as the Group has delivered on a number of the targets it set itself. Production increased by 24% to 68,606 Boepd, in line with our guidance and reflecting improved uptime at Kraken and strong pipeline project execution, while our focus on strengthening the balance sheet saw net debt materially lower at $1,413 million.

The proactive and precautionary shutdown and down-man of the Thistle platform should also be commended. This was the right thing to do. Safety has always been, and will continue to be, EnQuest's top priority.

> The oil price collapse of March 2020, the COVID-19 pandemic and the resulting crash in the global financial markets have presented us with a unique set of challenges. However, we have moved swiftly to reduce our operating cost base, have put robust protocols in place to both maintain operations and keep our people safe and have sufficient liquidity to weather this perfect storm.

This is all good, solid progress and on behalf of the Board, I would like to thank our teams for their commitment and professionalism in delivering these outcomes.

Q

What has been your focus since you joined?

A

I have been working with my Board colleagues to assess the appropriate composition of the Board and Board Committees. This has resulted in the establishment of a Technical Committee to provide the Board with additional insights when making key decisions. Our Board has a strong technical cadre which has made this possible. We have also refreshed the membership of the existing Board Committees to provide an opportunity for fresh perspectives and renamed the Risk Committee as the Safety and Risk Committee in order to better reflect the Company's commitment to SAFE Results and ensure a continued focus on operational, process and occupational safety.

As part of my induction, I have been meeting with many of our management teams and employees in London, Aberdeen and Kuala Lumpur and have been impressed by those I have met. I have also had the opportunity to meet with the Group's major institutional shareholders and thank them for sharing their views on the Company.

Q

How big is the environmental, social and governance ('ESG') challenge for EnQuest and the industry at large?

A

This is a broad and complicated subject and it is receiving a lot of discussion and debate at the highest levels of the Company. In the first instance, we are focused on two aspects of the ESG agenda: climate change; and diversity.

Over the last few years, climate change has been brought more sharply into focus and this is an area of importance for the Company. We are conscious of the UK legislation requiring the country to be net carbon neutral by 2050. EnQuest is committed to contributing positively towards achieving this target and in 2020, a systematic programme of work is being undertaken to put in place plans that will deliver a pathway to support this.

We value diversity in our workforce, and in early 2019, we formally launched our revised Diversity and Inclusion policy. Other initiatives included supporting International Women in Engineering Day, sponsoring a Women in Engineering and Technology workshop in Malaysia and signing up to the UK's AXIS network pledge to identify reasons for our gender imbalance and develop plans to deliver positive change.

Q

What's next for EnQuest?

A

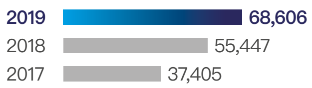
Our first priority has been to put robust protocols in place to both maintain operations and keep our people safe in light of the global COVID-19 pandemic. With the oil price decline in early March 2020, we have also identified opportunities to significantly lower our cost base in 2020 and 2021. The successful delivery against these and our operational targets will position the Company well to manage through a period of low oil price. In the longer term, our three largest assets have material reserves and resources which we believe can be accessed via our particular capabilities in infill drilling and sub-sea tie-backs, and we will continue to look for appropriate inorganic growth opportunities.

Chief Executive’s report

> The combination of improved Kraken performance and a full-year contribution at Magnus drove significant production growth of 24%.
>
> **Amjad Bseisu**
> Chief Executive

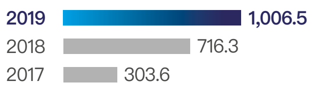
Production
Boepd

+23.7%



EBITDA
$ million

+40.5%

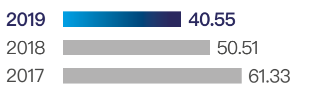


Net 2P reserves
MMboe

-13.3%

Greenhouse gas emissions intensity ratio
kgCO2e/boe[1]

-19.7%



1 Ratio expressed in terms of kilogrammes of CO_2 emissions per EnQuest-produced barrel of oil-equivalent and represents combined Scope 1 and Scope 2 extraction related emissions. See page 100 for more information

Overview
EnQuest's operational focus for 2019 was to improve and stabilise production at Kraken, deliver the Group's sub-sea pipeline projects and drilling programmes, while maintaining strong production efficiency across its asset base. All of these were achieved, with the Group again performing better than, or in line with, its external guidance. This operational delivery combined with ongoing cost control enabled the Group to continue to strengthen the balance sheet by significantly reducing net debt.

Operational performance
EnQuest's average production increased by 23.7% to 68,606 Boepd, towards the top end of the Group's guidance. The increase was driven by the contributions from Magnus, Kraken, Scolty/Crathes and PM8/Seligi, partially offset by the shutdowns at Thistle and Heather and natural declines across the portfolio. The improved performance of the Kraken FPSO vessel is particularly pleasing. This was the result of targeted improvement initiatives and the collaborative efforts by our people and those of our partner and the vessel operator. At Magnus, the team also delivered a good operational performance, which, along with a revised reservoir management strategy that lowered operating costs, resulted in the reimbursement of EnQuest's $100 million cash consideration in a year, earlier than originally expected. The project teams delivered an excellent performance in our sub-sea pipeline replacement projects at Scolty/Crathes and the Dunlin bypass in respect of Thistle and the Dons, with both being completed ahead of budget and schedule.

During the year, the Group produced 9.6% of its year-end 2018 2P reserves base. The Group's revised life-of-field expectations at Heather/Broom and Thistle resulted in downward reserves revisions which were almost entirely offset by increases at the Group's growth assets, Magnus, Kraken and PM8/Seligi. Overall, net 2P reserves reduced to 213 MMboe at the end of 2019, down 13.3% on the 245 MMboe at the end of 2018. Since the Company was formed with around 81 MMboe of 2P reserves, the Group has achieved a compound average reserves growth of 10.2%. The Group continues to have substantial 2C resources of around 173 MMboe, primarily located at Magnus, Kraken and PM8/Seligi, and include the addition of 2C resources associated with the Group's Production Sharing Contract ('PSC') at PM409, offshore Malaysia.

Financial performance
The Group's EBITDA increased by 40.5% to $1,006.5 billion, reflecting the material increase in production and higher realised prices, while the Group's ongoing focus on cost control kept operating expenditure to $518.1 million, with unit operating costs reduced to around $20.6/Boe. As a result, cash generated by operations increased significantly to $994.6 million, up 26.1% compared to 2018, with free cash flow of $368.5 million.

This strong performance facilitated a material reduction in the Group's net debt, which ended the year at $1,413.0 million, down $361.5 million from the end of 2018, the EnQuest's net debt to EBITDA ratio at 1.4x, materially ahead of the initial target of being below 2x. A combination of scheduled and voluntary early repayments of the Group's senior credit facility, including a $35.0 million payment in January 2020, has seen the outstanding balance reduce to $425.0 million with no further amortisations due in 2020.

At the year end, the Group recognised non-cash post-tax impairments of $562.3 million, including tangible fixed assets of $397.5 million, mainly reflecting changes in oil price and reserve profiles, primarily at Heather/Broom, Thistle and the Dons, and $149.6 million impairment of goodwill.

Health, Safety, Environment and Assurance ('HSEA')
As always, SAFE Results is our number one priority. Across the Group, good progress was made with the leading metrics in areas such as safety-critical maintenance backlog, leadership site visits and close out of actions from incidents and audits, demonstrating our commitment to be proactive with regard to HSEA. In both Malaysia and the UK, positive feedback from the respective regulators was received regarding the levels of transparency and trust that have been generated.

However, in occupational safety, our Lost Time Incident ('LTI') performance was mixed. During the year, our teams at Kittiwake and PM8/Seligi recorded 14 and nine years LTI free, respectively, while our Thistle and Northern Producer assets in the UK North Sea and the Tanjong Baram asset in Malaysia all recorded an LTI-free year. These are great achievements considering the ongoing backdrop of high activity levels and the age of our assets. Our team at Thistle demonstrated EnQuest's proactive approach to safety when they decided to shut down and down-man the platform following the results of a routine inspection programme.

Chief Executive's report continued

However, there was an increase in the number of minor injuries in the UK and there was a high-potential incident associated with the KT03 compressor lube oil system at Heather. Such issues highlight the need for everyone to remain focused at all times on delivering SAFE Results. We continue to learn from these events through extensive root cause analysis and the subsequent development and sharing of any required improvements across EnQuest's assets in an effort to limit the chance of reoccurrence.

While there were no major hydrocarbon releases in Malaysia, a significant improvement on hydrocarbon loss of containment events from 2018, reportable hydrocarbon releases across the Group's UK operated assets increased to 11 from six in 2018. During 2019, the UK team published its environmental compliance manual which, along with training and awareness sessions, has been designed to inform the workforce of our environmental responsibilities and help to improve environmental performance.

The Company's place within the wider energy transition is to improve performance and efficiencies at already producing assets through short-cycle investments, avoiding the need for costly, carbon intensive and long-dated new developments. As part of this efficiency drive, the Group recognises that it must endeavour to minimise carbon emissions from its operations as far as practicable and play its part in the UK's legal requirement to be net carbon neutral by 2050. With its low-sulphur content, demand for Kraken oil increased through 2019 and into 2020 as buyers in the maritime industry recognised it is playing a valuable part in reducing sulphur emissions in accordance with the International Maritime Organisation's new regulations that limit the sulphur content of bunker fuel. By selling directly to the fuel oil market, Kraken cargoes also avoid refining-related emissions. In 2020, a systematic programme of work is being undertaken to put in place plans that will include specific, measurable emissions reduction targets, supported by specific projects, which will form the basis of our 2021 corporate targets.

UK North Sea operations

Magnus continued to perform strongly throughout 2019, achieving production efficiency of 81%, driven by enhanced reservoir management, well interventions and plant debottlenecking. During the year, the Group also further improved the facility's water handling capabilities, a key enabler to the field's revised reservoir management strategy, which itself has driven a material reduction in operating costs. In the first quarter of 2020, new production wells on Magnus were completed and came onstream, with further production optimisation activities underway.

Safety-related shutdowns in the fourth quarter at Heather and Thistle impacted performance. While shutdown for repairs, there was a small fire in one of the compressor modules at Heather that was quickly extinguished. At Thistle, the team initiated a precautionary shutdown and down-man following the identification of a deterioration in a metal plate connecting a redundant storage tank to the platform's leg. The Group no longer expects to restart production at either of Heather or Thistle, with extensive analysis of the costs and risks of remediation and restarting production outweighing the economic benefits of doing so.

At Kraken, performance of the FPSO vessel significantly improved through the year as a result of targeted improvement initiatives, focusing on the main power engines, topside power water pumps and the hydraulic submersible pumps, combined with changes to the offshore spares management and FPSO maintenance processes. The completion of the drill centre ('DC') 4 drilling programme in March marked the end of the field's original development plan. Overall subsurface and wells performance has remained strong, with water cut levels stable and below the Group's assumptions that underpinned the year-end 2018 2P reserves estimates, providing increased confidence in long-term production. In May 2019, the Group sanctioned the Worcester development in Kraken's western area, where drilling of a producer-injector pair through spare capacity in the existing DC2 sub-sea infrastructure began in the first quarter of 2020. Further areas in the western area, including the Maureen sands which lie directly beneath the existing reservoirs, are being evaluated to identify economic, drillable targets to develop its estimated 70 to 130 MMbbls of STOIIP.

During the year, our projects teams delivered an excellent performance in our two sub-sea pipeline replacement projects at Scolty/Crathes and at the Dunlin bypass in respect of Thistle and the Dons, with both being completed ahead of budget and schedule. Thistle production was transferred to the new export route at the end of June without incurring any production downtime, while production at Scolty/Crathes restarted in September.

While production efficiency at Alma/Galia remained high at over 95% throughout the year, natural declines meant production was lower than in 2018. The decommissioning programme has recently been finalised, with the Group expecting production to cease in the second half of 2020.

At the Sullom Voe Terminal, the Group achieved high plant availability and delivered safe and stable operations during the year. In July, the Group announced essential organisational changes to the terminal to ensure that it remains competitive for existing and future business. Many of these changes were implemented in early 2020.

Malaysia operations

Production in 2019 was slightly higher than in 2018, primarily reflecting high production efficiency of 92% at PM8/Seligi and better than expected

> We are implementing a material operating cost and capital expenditure reduction programme to significantly lower EnQuest's cost base, with group free cash flow breakeven targeted at around $33/Boe in 2020.
>
> **Amjad Bseisu**
> Chief Executive

performance from the Group's idle well restoration programme. The Group successfully completed the 2019 compressor maintenance programme and systematic and wide-scale asset inspection and maintenance campaign during the fourth quarter.

In December, the Group was awarded the Block PM409 Production Sharing Contract ('PSC') offshore Malaysia. The block is in a proven hydrocarbon area containing several undeveloped discoveries and is contiguous to the Group's existing PM8/Seligi PSC, providing low-cost tie-back opportunities to the Group's existing Seligi main production hub.

The Group will continue to execute its idle well restoration activities during 2020. It will also continue to assess the development potential of the large number of low-cost drilling and workover targets that have been identified at PM8/Seligi and identify suitable drilling and tie-back opportunities within Block PM409.

2020 performance and outlook

We have been monitoring the evolving situation with regards to the spread of COVID-19 and 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. We have implemented a number of actions to keep our people safe and maintain safe operations, such as offshore travel restrictions, non-essential workforce down-manning and access to specialised evacuation transport for our operated assets.

Given the prevailing low oil price environment, the Group has reviewed each of its assets and related spending plans. EnQuest no longer plans to restart production at the Heather and Thistle/Deveron fields. At the same time, the Group is taking decisive action and implementing a material operating cost and capital expenditure reduction programme to significantly lower EnQuest's cost base, with Group free cash flow breakeven targeted at c.$33/Boe in 2020 and c.$27/Boe in 2021.

As a result of the field shutdowns outlined above, full year production is expected to be in the range of 57,000 to 63,000 Boepd. Kraken gross production remains unchanged at 30,000 to 35,000 Bopd. The two-well drilling programme in Kraken's western area is underway and expected to contribute production in the second half of the year, partially offsetting the impacts of the planned maintenance shutdown and natural declines. As previously announced, the Group's current expectation is for economic production at Alma/Galia to cease in the second half of 2020.

For 2020, the Group is targeting base operating expenditure savings of c.$190 million, which would lower operating costs by c.35% to c.$335 million and unit operating expense to c.$15/Boe. In 2021, the Group is targeting unit operating expenditures of c.$12/Boe. These savings are driven primarily by cost savings at Heather and Thistle/Deveron, but also through the removal of non-critical and discretionary operating expenditures and support costs.

2020 cash capital expenditure is also expected to be reduced by c.$110 million to c.$120 million. The majority of the Group's 2020 programme relates to the recently concluded drilling programme at Magnus and the two-well programme now underway at Kraken, with approximately $50 million of 2020 cash capital expenditure relating to the phasing of cash payments into 2020. The Group's 2021 capital expenditure programme is expected to reduce further, which will also impact production.

While no further repayments of the Group's senior credit facility are due in 2020, further debt repayment remains the financial priority for the Group.

Longer-term development

Lowering the Group's cost base now will enable our experienced and capable teams to utilise our proven differential capabilities to develop EnQuest's material opportunity set to deliver future value to its stakeholders. We will continue to reduce our debt and dependent on price conditions and Company performance, our capital allocation will balance investment to develop our asset base, returns to shareholders and the acquisition of suitable growth opportunities, which will be aligned with our proven differential capabilities in managing maturing and underdeveloped hydrocarbon assets.

Amjad Bseisu
Chief Executive

A strong track record

Operational excellence

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

Safety

Safety is core to what we do and we continuously strive for improvement. Our proactive approach was demonstrated by our precautionary decision to shut down production on both the Thistle and Heather platforms. We have maintained our performance for occupational safety lagging indicators in both the UK and Malaysia, with our Group Lost Time Incident ('LTI') frequency being less than 0.6. On our Kittiwake and Northern Producer assets, we have recorded 14 and seven years, respectively, LTI free, and in Malaysia, we recently celebrated five years without a LTI.

Production efficiency

Production efficiency is fundamental in underpinning the application of our capabilities to drive value, with the Group targeting 80% or higher at all our assets, irrespective of age. We have a good track record of increasing uptime at all the assets in our portfolio. On Magnus, we achieved production efficiency of 81% during 2019, driven by enhanced reservoir management, well interventions and plant debottlenecking. Production efficiency on Kraken also quickly returned to high levels following a short unplanned shutdown, averaging more than 95% in the fourth quarter. High production efficiency of 92% at PM8/Seligi was a key contributor to the increase in production in Malaysia during 2019.

See pages 22 to 25

> At EnQuest, we are focused on delivering SAFE Results and have a consistent track record of improving uptime and extending the life of our assets.
>
> **Bob Davenport**
> Managing Director — North Sea

78%[1]

Production efficiency
(2018: 75%[1])

1 Group oil production efficiency, excluding Tanjong Baram

Drilling and sub-sea tie-backs

Differential capability

EnQuest has significant reserves and resources which can primarily be accessed through its differential capabilities. Strong project delivery underpins value creation.

Capabilities explained

EnQuest has the right mix of in–house, integrated technical capabilities to select and deliver appropriate drilling and sub–sea development options in accordance with its Capital Projects Delivery Process, a framework and governing process that helps our teams to deliver excellent results and assures project delivery through each stage of project lifecycle.

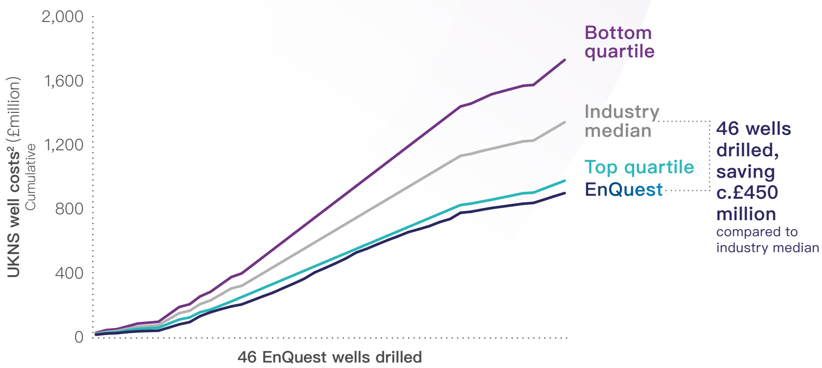
Drilling

As a recognised industry leader in drilling[1], EnQuest has consistently drilled wells at a cost below the industry median, saving an estimated $450 million compared to the typical industry spend. This strong performance has been achieved through the development of highly skilled, technically and commercially focused in–house teams, who take responsibility for the entire well project.

At Kraken, EnQuest spent approximately $2.1 billion in total on developing the complex, shallow, unconsolidated heavy oil field with around $800 million associated with drilling 24 wells as part of the initial field development plan. As part of this drilling programme, the team successfully completed the longest open–hole gravel packed wells in the world, reaching 4,347 feet. The Company also saved around 300 days of drilling time as a result of its continuous learning approach and the application of deep directional resistivity tools to aid real–time decisions on well placement. Furthermore, these tools allowed us to identify and model a number of opportunities in the western area.

Overall, EnQuest achieved drilling cost savings of around $500 million compared to the initial budget, which was around half of the overall project savings realised.

An industry leader in drilling: 46 of 104 wells in UKNS[1]



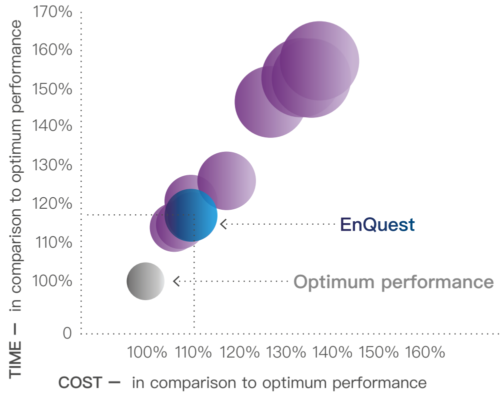
Note:
1 Between January 2015 and March 2019. Source: Company data; Rushmore Reviews (April 2019)

“

By being one of the few companies with these differential capabilities, we have a clear and compelling competitive advantage to deliver portfolio value.

Sandy Fettes
Technical Services Director

Oil and Gas UK efficiency taskforce study (2015—2018)



Sub-sea tie-backs

An independent industry benchmarking study[2] has ranked the Group’s sub-sea project performance highly, with EnQuest delivering projects within 10% and 20% of the optimum cost and time, respectively.

The Group successfully completed the pipeline replacement project on Scolty/Crathes during the third quarter, ahead of budget and schedule. The improved performance from the field following the restart of production, initially from the Crathes well in early September with the introduction of the Scolty well in the fourth quarter, helped underpin delivery against the Group’s full year production target.

On the Dunlin bypass project, which sees volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal, EnQuest completed the project 18 days ahead of schedule, with final commissioning work undertaken during the Dons planned maintenance shutdown. Modifications on the Thistle, Northern Producer and Magnus facilities were completed on schedule and production at Thistle was successfully transferred to the new export route without incurring any production downtime.

See pages 22 to 25

Note:
2 As stated by the Oil and Gas UK efficiency taskforce

Innovative transaction structures

Value enhancement

Innovative transaction structures facilitate getting the right assets into the right hands.

Magnus acquisition

Early in 2017, EnQuest agreed to acquire an initial 25% interest in Magnus and various equity interests in associated pipelines and the Sullom Voe Terminal ('SVT'). The transaction was structured such that EnQuest had no exposure to cumulative negative cash flows, being financed through a vendor loan which was only to be repaid out of the future positive cash flow of the asset. The Group also had an option, exercisable at its discretion with the same economic effective date as the initial acquisition, to acquire the remaining 75% of Magnus and additional interest in associated pipelines and SVT through a combination of a further vendor loan, $100.0 million cash consideration and a future cash flow sharing arrangement. This transaction minimised EnQuest's financial and operational risk, facilitating the asset transfer to a specialist operator and incentivising the Group to drive operating efficiencies, enhance recovery and extend the life of the asset for the benefit of all stakeholders, including BP.

Kraken financing arrangement

In September 2018, the Group entered into a financing structure with Sculptor Capital LP that saw a 15% interest in the Kraken oil field ring-fenced in a separate legal entity in return for a $175.0 million financing facility. The facility is repayable over a maximum of five years out of the free cash flow generated from the 15% interest. This innovative flexible repayment programme is aligned with the free cash flow generating profile of Kraken. With the entitlement to cash flows returning to EnQuest once the financing is repaid, EnQuest has retained the upside potential from any future developments at the field.

See pages 29, 31 and 137

> Using innovative transaction structures, we have been able to grow and develop our business, creating value for our shareholders across our entire portfolio of assets.

Salman Malik
Vice President, Strategy and Corporate Development, International Business Development

Cost control and capital discipline

EnQuest focuses on controlling costs and allocating capital to investments that pay back quickly and generate strong returns, facilitating the effective management of EnQuest's capital structure and liquidity.

Cost control

Cost control is fundamental in underpinning the application of EnQuest's capabilities to drive value in the business. We have clear accountability at the asset level and our centralised procurement function develops innovative and collaborative supply chain models. For example, our team remodelled the integrated Engineering, Procurement and Construction ('EPC') framework that many operators in the North Sea use and introduced an internal market EPC framework. This allows all tiers of suppliers to bid for engineering and repair order work scopes and enables us to use the most effective suppliers for the job involved whilst controlling costs.

Over the past five years, EnQuest has achieved a sustainable reduction in the Group's unit opex of around 50% from $42/Boe in 2014, to around $21/Boe in 2019. As part of the transformation programme at the Sullom Voe Terminal on Shetland, operating costs have also been reduced by c.40% over the last two years, improving its competitiveness, while at PM8/Seligi, effective supply chain management has been a contributing factor in driving down unit costs, which have reduced by around 40% over a four–year period.

For 2020, the Group is targeting base operating expenditure savings of c.$190 million, which would lower operating costs by c.35% to c.$335 million and unit operating expense to c.$15/Boe. In 2021, the Group is targeting unit operating expenditures of c.$12/Boe.

21

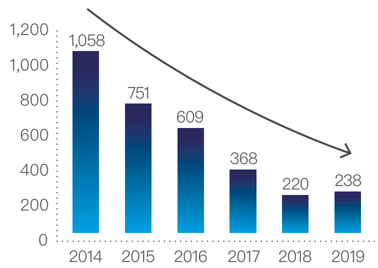
2019 unit opex ($/Boe)
–c.50% since 2014

> We continue to keep tight control on both our operational and capital expenditures.

Jonathan Swinney
Chief Financial Officer

Capital discipline: investment targeting high-value activities

$ million



Capital discipline

The Group's capital allocation process ensures expenditure is directed to the most value-accretive assets, and we focus on delivering projects under budget and ahead of schedule. Between 2014 and 2019 Group cash capital expenditure decreased by over 75%, with investment largely focused on delivering first oil and completing the drilling programme at Kraken. Overall, the initial Kraken development was delivered for around $2.1 billion, approximately $1.0 billion lower than budgeted. More recently, drilling programmes at Magnus and PM8/Seligi were completed in line with budget while the Dunlin bypass and Scolty/Crathes sub-sea pipeline projects were delivered on budget and ahead of schedule. These successes highlight the value of our differential capabilities in drilling and sub-sea tie-backs.

Following the oil price decline in early March 2020, the Group is removing around $110 million of discretionary spend in 2020, targeting full year expenditure of $120 million. The Group's 2021 capital expenditure programme is expected to reduce further.

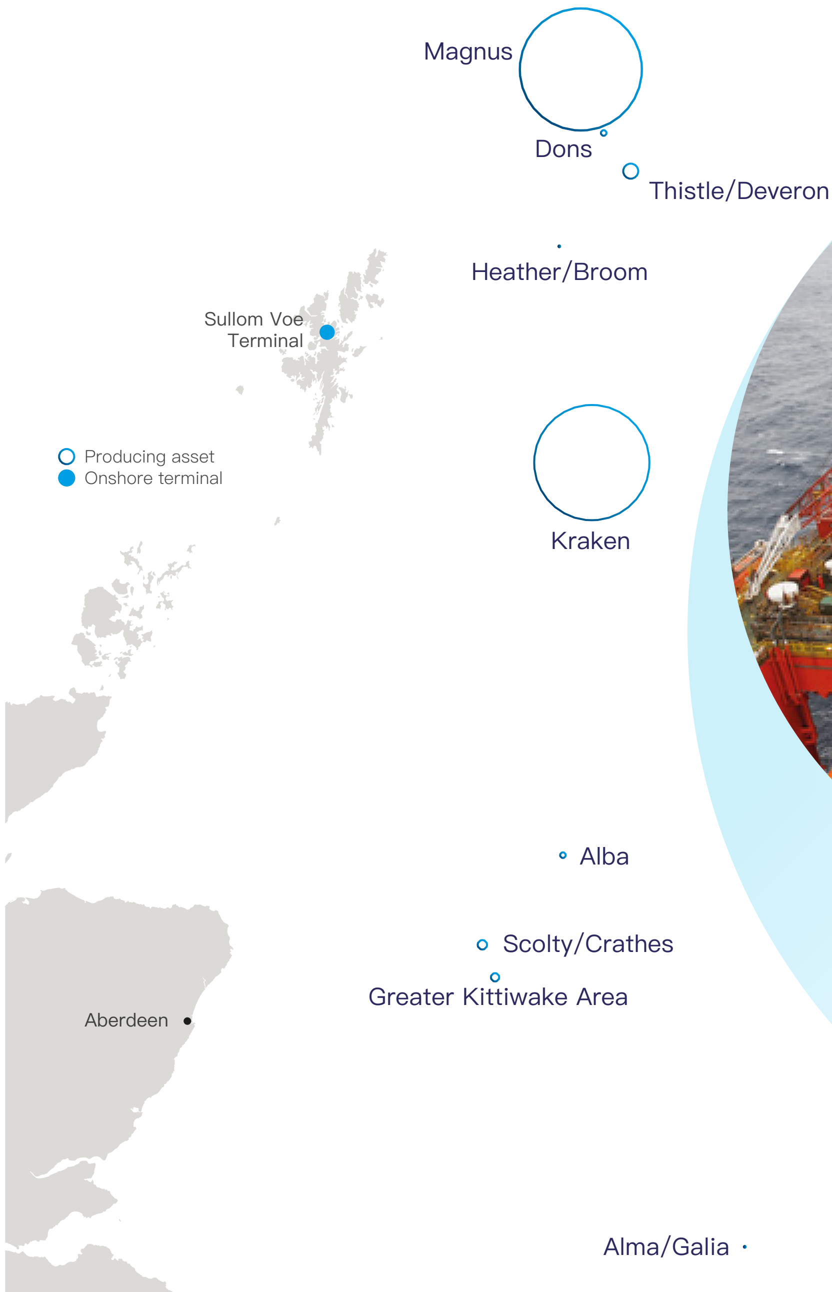
In the medium to long-term, the Group will focus on low-cost, high-return and rapid cost payback infill drilling, primarily at Magnus, Kraken and PM8/Seligi.

See pages 22 to 33

Operating review

The success of the focused Kraken FPSO improvement programme supported ongoing strong reservoir performance.

Bob Davenport
Managing Director — North Sea

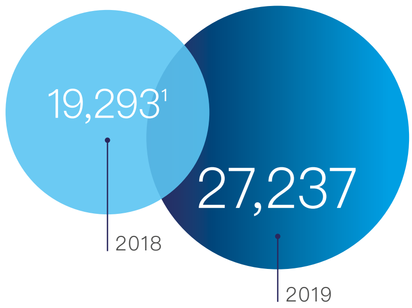


For illustrative purposes only, not to scale

Note:
1 Includes net production related to 25% interest in Magnus until 30 November 2018 and 100% interest in Magnus from 1 December 2018, averaged over the 12 months to the end of December 2018

Northern North Sea operations

Daily average net production:
Boepd



2019 performance summary

Production in 2019 of 27,237 Boepd was 41.2% higher than in 2018, reflecting additional equity interest in, and a continued strong performance from, Magnus, partially offset by safety-related shutdowns at Heather and Thistle and natural declines across the Northern North Sea area assets.

Magnus has continued to perform strongly throughout 2019, achieving production efficiency of 81%, driven by enhanced reservoir management, well interventions and plant debottlenecking. During the year, the Group further improved the facility's water handling capabilities through the return to service of a second deaeration tower and successfully completed a planned three-week shutdown of the facility to undertake safety-critical maintenance. The planned two-well drilling programme commenced during the fourth quarter and continued through the end of the year and into 2020.

Single compressor train outages and an extended shutdown impacted production at Heather during the year. In October, while shut down to undertake repair work on the compressors, the facility suffered a small fire in one of the compressor modules which was extinguished quickly. With safety being a top priority for the Company, the facility remained shut down while Company and regulatory investigations into the incident were undertaken and necessary repairs fully assessed.

On Thistle, production and water injection efficiency averaged over 90% during the first half of the year and the drilling team successfully executed the well abandonment programme in line with the Group's asset strategy. However, in October production stopped following a proactive safety-related shutdown as a result of a deterioration in the condition of a metal plate connecting one of the redundant sub-sea storage tanks to the facility's legs being identified during the ongoing sub-sea monitoring and inspection programme. The Group had already planned to remove the tanks on behalf of the decommissioning partners during the summer of 2020, with initial tendering having started earlier in 2019. This programme was accelerated, with contracts for the sub-sea and heavy lift operations awarded in late 2019.

At the Dons fields, production was slightly below the Group's expectations reflecting lower than expected water injection efficiency as a result of water injection pump failures and gas lift interruptions.

The Dunlin bypass project was successfully completed in June, 18 days ahead of schedule, with final commissioning work undertaken during the Dons planned annual maintenance shutdown. Modifications on the Thistle, Northern Producer and Magnus facilities were also completed on schedule, with Thistle production being transferred to the new export route without incurring any production downtime.

At the Sullom Voe Terminal ('SVT'), the Group has achieved high plant availability and delivered safe and stable operations during the year. The Oil & Gas Authority endorsed the revised SVT Owner's strategy to extend the life of the facility in support of maximising economic recovery for the 33 offshore fields that currently export crude oil through the terminal. In July, the Group announced essential organisational changes to the terminal to ensure that it remains competitive for existing and future business. These changes form an essential part of SVT's future and as a direct consequence of EnQuest's demonstrable progress in safely reducing SVT's underlying cost basis, there are now a number of ongoing enquiries for the provision of additional services from the terminal.

2020 performance and outlook

In the first quarter of 2020, new production wells on Magnus were completed and brought onstream. During the year, the test separator will be enhanced, which will enable more robust testing and improved optimisation. Chemical trials will also be conducted to investigate methods to reduce well slugging and increase oil flow. A two-week maintenance shutdown on Magnus is planned during the third quarter.

In the medium term, the Group has substantial 2C resources of 38 MMboe to develop, primarily through low-cost drilling. In addition, the Group will continue to evaluate the estimated c.250 MMbbls of additional remaining mobile oil in place to identify future drilling targets to maximise recovery from this field.

At Thistle, the Group no longer expects to restart production. Adverse weather conditions have restricted progress on the tank removal project, although where possible, sub-sea and platform surveys to assess the condition of the tanks, their connection to the facilities legs and the condition of the topsides to assist project planning have been undertaken. The tank removal project will continue, with further platform remediation activity also required, although timing of these activities remains subject to weather and detailed execution plans.

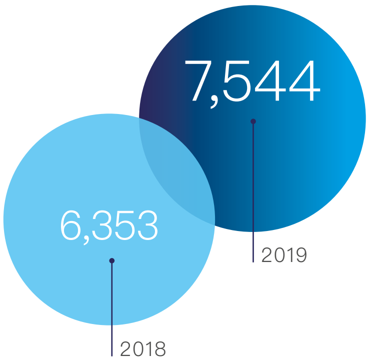
In February, having carefully reviewed all options, EnQuest decided not to restart production from the Heather field and intends to seek the necessary regulatory approvals from the UK Oil & Gas Authority in respect of cessation of production. This decision was taken following extensive analysis, which clearly demonstrated the costs and risks of remediation and resuming production outweighed the economic benefits of doing so.

Following remediation of the water injection efficiency and gas lift repair issues experienced during 2019, the Dons fields have ramped up during the first quarter of 2020. A three-week maintenance shutdown is planned during the third quarter.

Operating review continued

Central North Sea operations

Daily average net production:
Boepd



2019 performance summary

Production in 2019 of 7,544 Boepd was 18.8% higher than in 2018, driven by increased volumes from Scolty/Crathes following the successful completion of the pipeline replacement project in September. This project, which was delivered during the third quarter planned maintenance shutdown, was completed ahead of budget and schedule. Production restarted in early September, initially with production from the Crathes well.

After Crathes declined as expected, the well was temporarily shut in to allow production to begin from Scolty. From December, both the Scolty and Crathes wells have been online and performing strongly, supported by optimisation activities.

On the Greater Kittiwake Area, high levels of production and water injection efficiency of 95% have delivered a strong production performance in 2019, partially mitigating the impact of natural declines. The team has delivered another solid HSEA performance, reaching 14 years without a LTI.

At Alma/Galia, average production in 2019 was 1,900 Boepd, a decrease of 8.1% compared to 2018, reflecting the natural decline of the field. Production efficiency at Alma/Galia remained high at over 95% during the year, while preparatory decommissioning programmes commenced.

Output from Alba during the year has been in line with expectations.

2020 performance and outlook

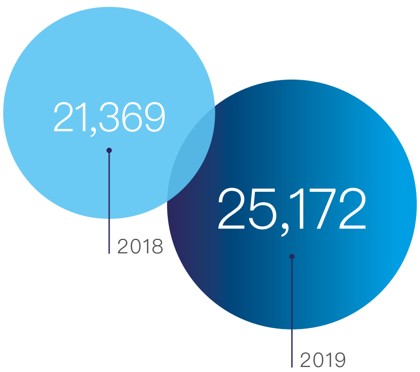
Performance to the end of February has been good. Production continues to decline at Alma/Galia, where the Group's focus remains on production optimisation and cost reduction. Decommissioning is expected to commence following cessation of production, currently forecast to be in the second half of 2020 with the FPSO vessel moving off-station thereafter.

At both Scolty/Crathes and the Greater Kittiwake Area, a four-week shutdown is planned for the summer, as required by the outage at the Forties Production System oil export route.

A two-day shutdown is planned at Alba during the third quarter.

The Kraken development

Daily average net production:
Bopd



2019 performance summary

Average gross production was 35,704 Bopd, above the top end of the Group's 2019 guidance range of 30,000 to 35,000 Bopd and 17.8% higher than 2018. Performance at the FPSO vessel has significantly improved through the year. This follows a programme of targeted improvement initiatives, focusing on the main power engines, topside power water pumps and the hydraulic submersible pumps, combined with changes to the offshore spares management and FPSO maintenance processes. Over the summer, pipework repairs on the FPSO required short unplanned production shutdowns, however production efficiency quickly returned to high levels, averaging more than 95% in the fourth quarter, compared to around 58% in the first quarter of 2019.

In March, the Group completed the DC4 drilling programme which marked the conclusion of the original Kraken field development plan. Overall subsurface and well performance remains strong and the Group continues to optimise production through improved injector–producer well management. The aggregate field water cut has remained stable and has evolved on a lower trajectory than was anticipated in the year end 2018 2P reserves estimates, providing increased confidence in long-term production. In May, the Group sanctioned the drilling programme at Worcester within the western area, commencing the next phase of the Kraken development. A rig contract was placed to drill the producer–injector pair through spare capacity in the existing DC2 sub-sea infrastructure.

Between first production and the end of 2019, more than 26 million barrels of oil had been produced and 52 cargoes offloaded from the FPSO, with 25 of these cargoes offloaded in the year. Pricing was robust, with some cargoes achieving premiums to Brent.

2020 performance and outlook

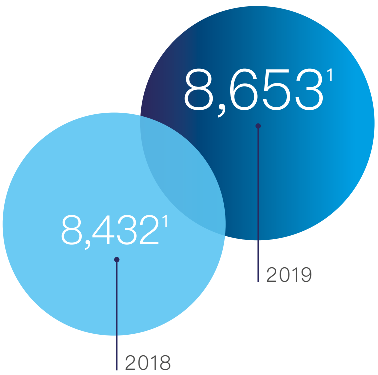
Production and cargo pricing remained strong in the first two months of the year. The Group continues to sell Kraken cargoes directly to the shipping market, as a key component of IMO 2020 compliant low-sulphur fuel oil.

The Group has commenced the two-well drilling programme at Worcester in the western area. In total, the western area provides a near-field, economic, development opportunity, with between 70 and 130 MMbbls of STOIIP. The Pembroke, Antrim and Barra areas continue to be evaluated and the Group is also reviewing the potential for developing the Maureen sands, which lie directly beneath the existing reservoir.

> High production efficiency and continued success with the Group's idle well restoration programme underpinned performance in 2019.

John Penrose
Managing Director, Malaysia

Daily average net production:
Boepd



Note:
1 Working interest. 2019 entitlement: 5,812 Boepd; 2018 entitlement: 5,631 Boepd

Malaysia operations

2019 performance summary

Average production in Malaysia during the year was 8,653 Boepd, which was 2.6% higher than in 2018, driven by high production efficiency of 92% at PM8/Seligi and better than expected performance from the Group's idle well restoration programme. The idle well restoration programme commenced ahead of schedule and resulted in 11 wells restored to production, helping mitigate underlying natural decline. In September, the Group completed its two–well drilling programme, with one well online.

A structured compressor maintenance and repair programme resulted in significantly improved compressor uptime performance during the fourth quarter, supporting enhanced gas reinjection and oil production. The systematic and wide–scale asset inspection and maintenance campaign to help ensure long–term facilities integrity was successfully concluded in the fourth quarter.

Production at Tanjong Baram decreased materially in the period, reflecting natural decline and the inability of well A2 to naturally flow. Under the terms of the Small Field Risk Service Contract ('SFRSC'), following two consecutive quarters of allocated revenue being below operating expenditures, the field is deemed uneconomic and EnQuest has the right to issue a contract termination notice. In December, this notice was issued to PETRONAS and the SFRSC was terminated on 3 March 2020. As a result, EnQuest will receive the outstanding capital expenditure of around $50 million over a period of three quarters, with the first repayment due in June 2020.

In December, the Group was awarded the Block PM409 Production Sharing Contract ('PSC') offshore Malaysia. Under the terms of the PSC, EnQuest will operate the block with a participating interest of 85.0%, with PETRONAS Carigali Sdn Bhd owning the remaining 15.0%. Block PM409 measures approximately 1,700 km2 and is located offshore Peninsular Malaysia in water depths of 70 to 100 metres. The block is in a proven hydrocarbon area containing several undeveloped discoveries and is contiguous to the Group's existing PM8/Seligi PSC, providing low–cost tie–back opportunities to the Group's existing Seligi main production hub. Within the initial four–year exploration term of the PSC, the partners are committed to the drilling of one well.

2020 performance and outlook

Aggregate production has been in line with the Group's expectations for the first two months of 2020, with the Tanjong Baram SFRSC terminating in March.

A planned shutdown of the PM8/Seligi facilities is anticipated in Q3 2020, with a similar duration to 2019.

At PM8/Seligi, further investment in idle well restoration and facility improvements will continue throughout the year.

EnQuest has c.22 MMboe of 2P reserves and c.76 MMboe of 2C resources in Malaysia. A large number of low–cost drilling and workover targets have been identified at PM8/Seligi, with multi–well drilling programmes being assessed for future development. At PM409, the Group will undertake subsurface studies to assess the existing discovered resources to identify suitable drilling and sub–sea tie–back opportunities for future development.

Reserves and resources

EnQuest oil and gas reserves and resources as at 31 December 2019

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves (1, 2, 3, and 6)					
At 31 December 2018		225		20	245
Revisions of previous estimates		(14)		5	(9)
Acquisitions and disposals		–		–	–
Production:					
Export meter	(22)		(3)		
Volume adjustments[5]	–		1		
		(22)		(2)	(24)
Total at 31 December 2019[8]		**190**		**22**	**213**
Contingent resources(1, 2 and 4)					
At 31 December 2018		131		68	198
Revisions of previous estimates		(21)		(13)	(35)
Acquisitions and disposals[7]		–		28	28
Promoted to reserves[9]		(13)		(5)	(18)
Total contingent resources at 31 December 2019		**97**		**76**	**173**

Notes:
1 Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis
2 Proven and probable reserves and contingent resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data
3 The Group's proven and probable reserves profiles have been audited by a recognised Competent Person in accordance with the definitions set out under the 2018 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers
4 Contingent resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis
5 Correction of export to sales volumes
6 All UKCS volumes are presented pre-SVT value adjustment
7 Contingent resources: Award of Block PM409 PSC
8 The above proven and probable reserves include 7 MMboe that will be consumed as fuel gas on Magnus and the Dons fields
9 Magnus reflects additional drilling opportunities and maturing the low-pressure operations project; PM8/Seligi reflects the continued success of the idle well restoration programme and new infill drilling and workover opportunities
10 The above table excludes Tanjong Baram in Malaysia
11 Rounding may apply

Hydrocarbon assets

EnQuest's asset base as at 31 December 2019

Licence	Block(s)	Working interest (%)	Name	Decommissioning obligation
North Sea production and development				
P073	21/12a	50.0	Goosander	As per working interests
P193	211/7a & 211/12a	100.0[1]	Magnus	30.0%[2]
P213[3]	16/26a	8.0	Alba	As per working interests
P236	211/18a	99.0	Thistle & Deveron	7.5%[4]
P236	211/18c	60.0	Don SW & Conrie	As per working interests
P236/P1200	211/18b & 211/13b	78.6	West Don	As per working interests
P238	21/18a, 21/19a & 21/19b	50.0	Kittiwake Mallard Grouse & Gadwall Eagle[5]	25.0% 30.5% As per working interests n/a
P242	2/5a	100.0	Heather	37.5%
P242/P902	2/5a & 2/4a	63.0	Broom	As per working interests
P475	211/19s	99.0	Thistle	7.5%[4]
P1077	9/2b	70.5	Kraken & Kraken North	As per working interests
P1107/P1617	21/8a, 21/12c & 21/13a	50.0	Scolty & Crathes	As per working interests
P1765/P1825	30/24c & 30/25c, 30/24b	65.0	Alma & Galia	As per working interests
P2137	211/18e & 211/19c	60.0	Ythan	As per working interests
Other North Sea licences				
P90[3]	9/15a	33.33		n/a
P2334	211/18h	60.0		n/a
Malaysia production and development				
Tanjong Baram SFRSC[6]	Tanjong Baram	70.0	Tanjong Baram	n/a
PM8/Seligi[7]	PM8 Extension	50.0	Seligi, North & South Raya, Lawang, Langat, Yong & Serudon	50.0%
PM409 PSC	PM409	85.0	Payung, Kecubung, NW Pinang & Kaca	n/a

Notes:
1 BP has a security over the Magnus asset (and related infrastructure assets) and is entitled to 37.5% of free cash flow from the assets subject to the terms of the transaction documents between BP and EnQuest
2 BP has retained the decommissioning liability in respect of the existing Magnus wells and infrastructure. EnQuest will pay BP additional deferred consideration by reference to 30% of BP's actual decommissioning costs on an after-tax basis, which EnQuest estimates will result in a payment equivalent to approximately 9% of the gross estimated decommissioning costs. The additional consideration payable is capped at the amount of cumulative positive cash flows received by EnQuest from Magnus, SVT and the associated infrastructure assets
3 Non-operated
4 EnQuest is liable for the decommissioning costs associated with investment since it assumed operatorship, with the balance remaining with the former owners. Following the exercise of the Thistle decommissioning options in January and October 2018, EnQuest will undertake the management of the physical decommissioning of Thistle and Deveron and is liable to make payments to BP by reference to 7.5% of BP's decommissioning costs of Thistle and Deveron
5 2016 discovery (100% EnQuest)
6 Small Field Risk Service Contract This contract was terminated on 3 March 2020
7 Official reference PM-8 Extension PSC, commonly referred to elsewhere as PM8/Seligi

> Production growth has driven strong free cash flow generation, facilitating accelerated repayments of the Group's credit facility and a stronger balance sheet.

Jonathan Swinney
Chief Financial Officer

Financial overview

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

The Group delivered on its operational and financial targets for 2019, growing production by 24% and lowering unit operating expenditure to $20.6/Boe. The material increase in EBITDA and free cash flow facilitated accelerated repayments of the Group's credit facility, to strengthen the balance sheet further. The Group's year–end net debt to EBITDA ratio was 1.4x, significantly ahead of the original target of below 2.0x. The Group has now repaid the entire 2020 senior credit facility amortisation early, following the voluntary repayment of $35 million in January 2020.

Production on a working interest basis increased by 23.7% to 68,606 Boepd, compared to 55,447 Boepd in 2018.

This increase reflected a significant improvement in performance at the FPSO vessel at Kraken, increased volumes from Scolty/Crathes following the successful completion of the pipeline replacement, high production efficiency at PM8/Seligi and a full year's contribution at 100% equity interest at Magnus. These increases were partially offset by shutdowns at Heather and Thistle, lower than expected production and water injection efficiency at the Dons and natural declines across other assets.

Revenue for 2019 was $1,711.8 million, 42.5% higher than in 2018 ($1,201.0 million) reflecting the increase in production, the onward sale of third–party gas purchases not required for injection activities at Magnus, and the favourable impact of the Group's commodity hedge programme, partially offset by lower market prices. The Group's commodity hedge programme resulted in realised gains of $24.8 million in 2019 (2018: losses of $93.0 million).

The Group's operating expenditures of $518.1 million were 11.2% higher than in 2018 ($465.9 million), reflecting the full year of additional equity interest in Magnus. Unit operating costs decreased by 10.4% to $20.6/Boe (2018: $23.0/Boe) as a result of increased production.

Other cost of sales of $97.5 million were higher than in 2018 ($48.1 million), principally reflecting the cost of additional Magnus related third–party gas purchases not required for injection activities of $72.0 million.

EBITDA for 2019 was $1,006.5 million, up 40.5% compared to 2018 ($716.3 million), primarily as a result of increased revenue.

	2019 $ million	2018 $ million
Profit from operations before tax and finance income/(costs)	**442.1**	290.0
Depletion and depreciation	**533.4**	442.4
Change in well inventories	**14.6**	5.8
Net foreign exchange (gain)/loss	**16.4**	(21.9)
EBITDA	**1,006.5**	716.3

EnQuest's net debt decreased by $361.5 million to $1,413.0 million at 31 December 2019 (31 December 2018: $1,774.5 million). This includes $133.3 million of interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('Payable in Kind' or 'PIK') (31 December 2018: $132.0 million) (see note 18 for further details).

	Net debt/(cash)[1] 31 December 2019 $ million	31 December 2018 $ million
Bonds	**971.9**	965.1
Multi–currency revolving credit facility ('RCF')	**475.1**	799.4
Sculptor Capital facility[2]	**122.9**	178.5
Tanjong Baram Project Finance Facility	**31.7**	31.7
Mercuria Prepayment Facility	**–**	22.2
SVT Working Capital Facility	**31.9**	15.7
Other loans	**–**	2.5
Cash and cash equivalents	**(220.5)**	(240.6)
Net debt	**1,413.0**	1,774.5

Notes:
1 See reconciliation of net debt within the 'Glossary – Non–GAAP measures' starting on page 166
2 Sculptor Capital facility was previously known as the Oz Management facility

During the year, the Group's improved cash generation enabled repayments of $325.0 million relating to the RCF, more than the scheduled amortisation requirement. In January 2020, EnQuest voluntarily repaid an additional $35.0 million early, with the Group having now repaid the entire senior credit facility amortisation due in 2020. Strong performance at Kraken drove repayments of the Sculptor Capital facility, totalling $55.6 million in the period. Following the termination of the Tanjong Baram Small Field Risk Service Contract on 3 March 2020, the Group anticipates repaying the Tanjong Baram Project Finance Facility during 2020.

UK corporate tax losses at the end of the year reduced to $2,903.4 million (2018: $3,225.3 million). The Group generated taxable profits on increased production which were offset against existing tax losses. In the current environment, no significant corporation tax or supplementary charge is expected to be paid on UK operational activities for the foreseeable future. The Group paid cash corporate income tax on the Malaysian assets which will continue throughout the life of the Production Sharing Contract.

Income statement

Revenue

On average, market prices for crude oil in 2019 were lower than in 2018. The Group's average realised oil price excluding the impact of hedging was $64.2/bbl, 7.5% lower than in 2018 ($69.4/bbl). Revenue is predominantly derived from crude oil sales which totalled $1,548.2 million, 25.1% higher than in 2018 ($1,237.6 million), reflecting the increase in volumes. Revenue from the sale of condensate and gas was $120.2 million (2018: $43.1 million), as a result of gas sales from Magnus, which includes the combination of produced gas sales and the onward sale of third–party gas purchases not required for injection activities, for which the costs are included in other cost of sales. Tariffs and other income generated $18.7 million (2018: $13.4 million). The Group's commodity hedges and other oil derivatives generated $24.8 million of realised gains (2018: losses of $93.0 million), including gains of $4.9 million of non–cash amortisation of option premiums (2018: losses of $17.2 million) as a result of the timing at which the hedges were entered into and the decrease in market prices. The Group's average realised oil price including the impact of hedging was $65.3/bbl in 2019, 1.7% higher than 2018 ($64.2/bbl).

Note: For the reconciliation of realised oil prices see 'Glossary – Non–GAAP measures' starting on page 166

Financial review continued

Cost of sales[1]

	2019 $ million	2018 $ million
Production costs	**441.6**	396.9
Tariff and transportation expenses	**74.8**	68.4
Realised (gain)/loss on derivatives related to operating costs	**1.7**	0.6
Operating costs	**518.1**	465.9
(Credit)/charge relating to the Group's lifting position and inventory	**102.9**	(25.1)
Depletion of oil and gas assets	**525.1**	437.1
Other cost of sales	**97.5**	48.1
Cost of sales	**1,243.6**	926.0
Unit operating cost[2]	**$/Boe**	$/Boe
— Production costs	**17.6**	19.6
— Tariff and transportation expenses	**3.0**	3.4
Average unit operating cost	**20.6**	23.0

Note:
1 See reconciliation of alternative performance measures within the 'Glossary — Non-GAAP measures' starting on page 166
2 Calculated on a working interest basis

Cost of sales were $1,243.6 million for the year ended 31 December 2019, 34.3% higher than in 2018 ($926.0 million).

Operating costs increased by $52.2 million, reflecting a full year of 100% equity interest in Magnus. The Group's average unit operating cost decreased by 10.4% to $20.6/Boe as a result of increased production.

The charge relating to the Group's lifting position and inventory was $102.9 million (2018: $25.1 million gain). This reflects a switch to a $28.6 million net overlift position at 31 December 2019 from a $68.3 million net underlift position at 31 December 2018. This switch reflected the closing positions on Thistle and Heather and the unwind of underlift on Magnus in the year.

Depletion expense of $525.1 million was 20.1% higher than in 2018 ($437.1 million), mainly reflecting a full year of 100% equity interest in Magnus.

Other cost of sales of $97.5 million were higher than in 2018 ($48.1 million), principally reflecting the cost of additional Magnus-related third-party gas purchases not required for injection activities of $72.0 million.

Other income and expenses
Net other expenses of $18.4 million (2018: net other income of $19.1 million) primarily comprises net foreign exchange losses, which relate to the revaluation of Sterling-denominated amounts in the balance sheet following the strengthening of Sterling against the Dollar.

Finance costs
Finance costs of $206.6 million were 12.5% lower than in 2018 ($236.1 million). The decrease was primarily driven by a reduction of $27.3 million in bond and loan interest charges (2019: $130.4 million; 2018: $157.7 million). Other finance costs included lease liability interest of $55.7 million (2018: $55.8 million), $14.1 million on unwinding of discount on decommissioning provisions and other liabilities (2018: $14.0 million), $5.7 million amortisation of arrangement fees for financing facilities and bonds (2018: $8.5 million) and other financial expenses of $2.1 million (2018: $1.7 million), primarily the cost for surety bonds principally to provide security for decommissioning liabilities.

Taxation
The tax charge for 2019 of: $23.6 million (2018: $20.9 million tax credit), excluding exceptional items, is mainly due to Malaysian tax and the utilisation of UK losses offset by RFES generated in the year.

Remeasurement and exceptional items
Revenue included unrealised losses of $65.4 million in respect of the mark-to-market movement on the Group's commodity contracts (2018: unrealised gains of $97.4 million).

Non-cash impairment charges of: $637.5 million (2018: $126.0 million) on the Group's tangible oil and gas assets arises from a reduction in the long-term oil price, revisions to reserve profiles in Heather/Broom, Thistle/Deveron and the Dons fields, and the anticipated cessation of production at Alma/Galia; $149.6 million (2018: $nil) on the Group's goodwill; and $25.4 million (2018: $0.4 million) on the Group's intangible oil and gas assets reflecting the write-off of historical exploration and appraisal expenditures.

Other income and expense included a $15.5 million expense in relation to the fair value recalculation of the Magnus contingent consideration reflecting the improved performance and outlook at the asset, and $15.6 million in relation to the KUFPEC settlement agreement. Other finance costs mainly relates to the unwinding of contingent consideration from the acquisition of Magnus and associated infrastructure of $57.2 million.

A tax credit of $303.5 million (2018: $12.4 million) has been presented as exceptional, representing the tax impact of the above items.

Earnings per share
The Group's Business performance basic profit per share was 13.1 cents (2018: 5.7 cents) and diluted profit per share was 13.0 cents (2018: 5.5 cents).

The Group's reported basic loss per share was 27.4 cents (2018 profit per share: 9.2 cents) and reported diluted loss per share was 27.4 cents (2018 profit per share: 9.0 cents).

Cash flow and liquidity
Net debt at 31 December 2019 amounted to $1,413.0 million, including PIK of $133.3 million, compared with net debt of $1,774.5 million at 31 December 2018, including PIK of $132.0 million. The Group has remained in compliance with financial covenants under its debt facilities throughout the year. The movement in net debt was as follows:

	$ million
Net debt 1 January 2019	**(1,774.5)**
Operating cash flows	962.3
Cash capital expenditure	(237.5)
Net interest and finance costs paid	(147.0)
Finance lease payments	(135.1)
Repayments on Magnus financing and profit share	(74.2)
Non-cash capitalisation of interest	(5.2)
Other movements, primarily net foreign exchange on cash and debt	(1.8)
Net debt 31 December 2019[1]	**(1,413.0)**

Note:
1 See reconciliation of alternative performance measures within the 'Glossary — Non-GAAP measures' starting on page 166

The Group's reported operating cash flows for the year ended 31 December 2019 were $962.3 million, up 21.1% compared to 2018 ($794.4 million). The main drivers for this increase were the increase in volumes and a gain on realised hedging at year end.

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

	Year ended 31 December 2019 $ million	Year ended 31 December 2018 $ million
North Sea	**224.4**	200.2
Malaysia	**13.0**	19.5
Exploration and evaluation	**0.1**	0.5
	237.5	220.2

Cash capital expenditure primarily relates to the Kraken DC4 programme, pipeline projects, licence to operate capital expenditure and agreed deferrals brought into 2019.

Balance sheet

The Group's total asset value has decreased by $885.3 million to $4,776.6 million at 31 December 2019 (2018: $5,661.9 million), mainly due to the impairment charge on the Group's tangible and intangible oil and gas assets and depletion of oil and gas assets offset by the recognition of the IFRS 16 Leases right-of-use assets. Net current liabilities have decreased to $282.7 million as at 31 December 2019 (2018: $301.2 million). Included in the Group's net current liabilities are $178.7 million of estimated future obligations where settlement is subject to the financial performance at Kraken and Magnus (2018: $134.8 million).

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

PP&E has decreased by $899.0 million to $3,450.9 million at 31 December 2019 from $4,349.9 million at 31 December 2018 (see note 10). This decrease encompasses the capital additions to PP&E of $177.4 million, initial recognition of new right-of-use assets under IFRS 16 Leases of $60.5 million, a net increase of $34.2 million for changes in estimates for decommissioning and other provisions, offset by non-cash impairments of $637.5 million and depletion and depreciation charges of $533.4 million.

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

	2019 $ million
Kraken	**29.0**
Northern North Sea	**63.9**
Central North Sea	**68.7**
Malaysia	**15.8**
	177.4

Goodwill

Goodwill decreased due to non-cash impairment of $149.6 million, mainly reflecting the impairment of assets relating to PP&E.

Intangible oil and gas assets

Intangible oil and gas assets decreased by $24.2 million to $27.6 million at 31 December 2019 (31 December 2018: $51.8 million), mainly reflecting the write-off of historical exploration and appraisal expenditures.

Trade and other receivables

Trade and other receivables increased by $3.7 million to $279.5 million at 31 December 2019 compared with $275.8 million at 31 December 2018.

Cash and net debt

The Group had $220.5 million of cash and cash equivalents at 31 December 2019 and $1,413.0 million of net debt, including PIK and capitalised interest of $140.7 million (2018: $240.6 million, $1,774.5 million and $135.5 million, respectively).

Net debt comprises the following liabilities:

- $225.7 million principal outstanding on the £155.0 million retail bond, including interest capitalised as PIK of $22.1 million (2018: $218.9 million and $21.5 million, respectively);
- $746.1 million principal outstanding on the high yield bond, including interest capitalised as PIK of $96.1 million (2018: $746.1 million and $96.1 million, respectively);
- $475.1 million of credit facility, comprising amounts drawn down of $460.0 million and interest capitalised as PIK of $15.1 million (2018: $799.4 million, $785.0 million and $14.4 million, respectively);
- $122.9 million on the Sculptor Capital facility, comprising amounts drawn down of $115.5 million and capitalised interest of $7.4 million (2018: $178.5 million, $175.0 million and $3.5 million, respectively);
- $31.9 million relating to the SVT Working Capital Facility (2018: $15.7 million);
- $31.7 million relating to the Tanjong Baram Project Finance Facility (2018: $31.7 million); and
- In 2018, $22.2 million relating to the Mercuria Prepayment Facility and $2.5 million outstanding from a trade creditor loan.

Provisions

The Group's decommissioning provision increased by $40.2 million to $711.9 million at 31 December 2019 (2018: $671.7 million). The movement is due to an increase in changes in estimates of $37.9 million and $13.4 million unwinding of discount, partially offset by utilisation of $11.1 million for decommissioning carried out in the period. During 2019, the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each operated field. The estimates were reviewed by operations personnel and adjustments were made where necessary to reflect management's view of the estimates.

Other provisions increased by $11.1 million in 2019 to $51.1 million (2018: $40.0 million). Other provisions includes EnQuest's obligation to make payments to BP by reference to 7.5% of BP's decommissioning costs of the Thistle and Deveron fields and the KUFPEC settlement agreement.

Contingent consideration

The contingent consideration related to the Magnus acquisition increased by $3.2 million. In 2019, EnQuest repaid $88.4 million to BP, including repaying the remaining $34.8 million in the year associated with the initial 25% interest vendor loan, with the remainder reflecting the partial repayment of the 75% interest vendor loan and interest, and BP's entitlement to share in the cash flows from the 75% interest. A change in fair value estimate charge of $15.5 million and an unwinding of discount of $57.2 million was recognised in the year.

Income tax

The Group had an income tax liability of $4.1 million (2018: $15.3 million) related to corporate income tax on Malaysian assets.

Financial review continued

Deferred tax
The Group's net deferred tax asset has increased from $258.9 million at 31 December 2018 to $555.1 million at 31 December 2019. The increase primarily relates to the combined tax impact from each of the impairment of the Group's oil and gas assets, the Group's hedging activities and the Magnus acquisition contingent consideration. Total UK tax losses carried forward at the year end amounted to $2,903.4 million (2018: $3,225.3 million).

Trade and other payables
Trade and other payables of $419.9 million at 31 December 2019 are $82.1 million lower than at 31 December 2018 ($502.0 million). The full balance of $419.9 million is payable within one year (2018: $483.8 million within one year and $18.2 million after more than one year). The decrease in current payables mainly reflects other working capital movements and the change in VAT position.

Leases obligations
As at 31 December 2019, the Group held a lease liability of $716.2 million. Six additional leases with a combined liability of $60.5 million were recognised on transition to IFRS 16 on 1 January 2019. The main lease continues to relate to the Kraken FPSO, with a liability of $635.0 million at 31 December 2019 and undiscounted contractual cash flows of $115.5 million payable within one year.

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

During the year ended 31 December 2019, commodity derivatives generated a total loss of $40.6 million; (realised gains of $24.8 million and unrealised losses of $65.4 million) mostly in respect of the mark-to-market of swaps and calls, and the amortisation of premiums on calls.

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

EnQuest continually reviews its currency exposures and, when appropriate, looks at opportunities to enter into foreign exchange hedging contracts. During the year ended 31 December 2019, losses totalling $1.0 million (2018: losses of $0.4 million) were recognised in the income statement. This included losses totalling $2.7 million realised on contracts maturing during the year (2018: $0.6 million).

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

Going concern disclosure
The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also 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.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2023. This assessment has taken into account the Group's financial position as at March 2020, forecasts that reflect the current market volatility and the Group's principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties, and the actions management are taking to mitigate these risks are outlined on pages 17 to 25. The Directors recognise that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The impact of these risks and uncertainties, including their combined impact, has been reviewed by the Directors and the effectiveness and achievability of the potential mitigating actions have been considered.

The period of three years is deemed appropriate as it is the time horizon across which management constructs a detailed plan against which business performance is measured and also covers the period within which the Group's term loan and revolving credit facility is expected to be repaid. Based on the Group's projections, the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the period to end March 2023.

The Group's going concern Base case also underpins this assessment and takes account of the Group's principal risks and uncertainties. The viability assessment uses the same oil price assumptions as for the going concern assessment, $45/bbl for the remainder of 2021, with a longer term price assumption of $60/bbl based on recent research analyst projections for the period.

The Base case has been sensitised by considering the impact of the following plausible downside risks on a combined basis:

- a 10% discount to the Base case oil price assumptions; and
- a 5% decrease in 2020 and 2021 production.

The Base case and sensitised case indicate that the Company is covenant compliant and able to operate within the headroom of its existing borrowing facilities during the three-year viability period from the date of approval of the Annual Report and Accounts.

For the current assessment, the Directors also draw attention to the specific principal risks and uncertainties (and mitigants) identified below, which, individually or collectively, could have a material impact on the Group's viability during the period of review.

Oil price volatility

A further decline in oil and gas prices from those assumed in the Base and Downside cases would adversely affect the Group's operations and financial condition. In partial mitigation to oil price volatility, the Group has hedged approximately 2.9 MMbbls at an average floor price of around $65/bbl in the first quarter of 2020. In accordance with the Sculptor Capital facility agreement, the Group has a further approximately 1.1 MMbbls hedged across 2020 with an average floor price of around $52/bbl. In line with Group policy, EnQuest will continue to pursue hedging at the appropriate time and price.

Access to funding

The Group's credit facility contains certain covenants (based on the ratio of indebtedness incurred under the term loan and revolving credit facility to EBITDA, finance charges to EBITDA, and a requirement for liquidity testing). Prolonged low oil prices, cost increases and production delays or outages could further threaten the Group's liquidity and/or ability to comply with relevant covenants. In assessing viability the Directors recognise the material uncertainty identified in the going concern period (see above) and the conclusion that a waiver for any potential covenant breach would be forthcoming.

The maturity dates of the existing $746 million High Yield Bond and the £172 million Retail Notes (both figures at year end 2019 and inclusive of the PIK notes) are in April 2022, with a mandatory extension to the maturity date to October 2023 if the existing facility is not fully repaid or refinanced by October 2020. The Directors recognise that refinancing of the High Yield Bond and Retail Notes is expected to be required beyond the viability period in 2023 and, based on recent research analyst projections for oil prices, and believe this would be achievable subject to other market conditions at that time.

Notwithstanding the principal risks and uncertainties described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group can continue in operation and meet its commitments as they fall due over the viability period ending March 2023. Accordingly, the Directors therefore support this viability statement.

Jonathan Swinney
Chief Financial Officer

Corporate responsibility review

Ensuring we deliver SAFE Results is a top priority and we are committed to driving continual improvement across our operations.

Sandy Fettes
Technical Services Director

HSEA
Group Lost Time Incident frequency rate[1]

+32.6%

2019	**0.57**
2018	0.43
2017	0.46

Greenhouse gas emissions intensity ratio[2]

-19.7%

2019	**40.55**
2018	50.51
2017	61.33

Group non-financial information statement
The following information is prepared in accordance with Section 414CB(1) of the Companies Act 2006.

Environment

- EnQuest's priority is delivering SAFE Results, with no harm to our people and respect for the environment
- Our Environmental Management System ensures our activities are conducted in such a way that we manage and mitigate our impact on the environment, which includes permitted hydrocarbon releases and discharges. Non-compliant releases and discharges from the Group's operations carry adverse reputational, financial and other consequences
- The Group acknowledges that a reduction in carbon emissions is of primary importance if the objectives of the UK Climate Change Act (2008) and the 2015 Paris Agreement are to be met. EnQuest endeavours to reduce carbon emissions from its operations where practicable and during 2020 a systematic programme of work is being undertaken to put in place plans that will deliver a pathway to support this
- The Group continues to evolve its disclosures in accordance with the recommendations of the Taskforce on Climate Related Financial Disclosures. EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

See pages 36 to 37

Our people

- We are committed to ensuring that EnQuest is a great place to work
- EnQuest is committed to improving workforce diversity across the Company. During 2020, enhanced diversity balance will continue to be a core driver of our recruitment, employment and training policies
- The Group-wide employee forum has improved engagement between the workforce and the Board through a series of meetings held during the year
- Across the Group, we launched a number of growth and learning initiatives in line with our Values
- The Group-wide employee survey saw more than 70% of our employees providing valued feedback, allowing us to better measure and understand the organisation and target improvements that matter to our people

See pages 38 to 40

Community

- EnQuest is fully committed to active community engagement programmes and encourages and supports charitable donations in the areas of improving health, education and welfare within the communities in which it works
- In the UK, the Group supported a diverse range of charities and continued to be a key sponsor of a number of important local community programmes on Shetland
- In Malaysia, our teams continue to support an active programme of local community initiatives and charities, and we have seen the development of a strong sponsorship programme in 2019 for both internships and graduates

See pages 40 to 41

Business conduct

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

See page 40

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)
2 Ratio expressed in terms of kilogrammes of CO_2 emissions per EnQuest-produced barrel of oil equivalent and represents combined Scope 1 and Scope 2 extraction related emissions. See page 100 for more information

Corporate responsibility review continued

Health, Safety, Environment and Assurance ('HSEA')

The EnQuest Board continues to receive regular information on the HSEA performance of the Company, and specifically monitors health, safety, environmental and assurance reporting at each Board meeting and meetings of the Safety and Risk Committee, conscious that the Company may face reputational and/or financial risks should an incident occur. The key components of EnQuest's HSEA policy (which can be found on the Group's website, www.enquest.com, under Corporate responsibility) are that the Company is committed to operating responsibly and will not compromise its health, safety or environmental standards to meet its business objectives. Our team at Thistle demonstrated EnQuest's pro-active approach to safety when they decided to shut down and down-man the Thistle platform in October 2019. This action followed the identification of a deterioration in the condition of a support plate connecting one of the storage tanks to the facility's legs as part of our routine inspection programme.

Health and Safety

Good progress was made with the leading metrics in areas such as safety-critical maintenance backlog, leadership site visits and close out of actions from incidents and audits, demonstrating our commitment to be proactive with regard to HSEA. In both Malaysia and the UK, positive feedback from the respective regulators was received regarding the levels of transparency and trust that have been generated, and we have improved the dissemination of learnings within EnQuest and across the industry.

In occupational safety, our Lost Time Incident ('LTI') performance was mixed. During 2019, our teams at Kittiwake and PM8/Seligi recorded 14 and nine years LTI free, respectively, while our Thistle and Northern Producer assets in the UK North Sea and the Tanjong Baram asset in Malaysia all recorded an LTI-free year. These are great achievements considering the ongoing backdrop of high activity levels and the age of our assets. However, there was an increase in the number of minor injuries in the UK and there was a high-potential incident associated with the KT03 compressor lube oil system at the Heather platform. In addition, reportable hydrocarbon releases across the UK operated assets increased to 11 from six in 2018, however, released quantities were generally low. We continue to learn from these events through extensive root cause analysis and the subsequent development and sharing of any required improvements across EnQuest's assets in an effort to limit the chance of reoccurrence. Such issues highlight the need for everyone to remain focused at all times on delivering SAFE Results, adjusting actions and behaviours accordingly to suit the situation. Across the Group, a learning culture is being developed with a number of knowledge sharing sessions held between Malaysia and the UK to promote good practices, resulting in greater collaboration during 2019 with further integration of health and safety arrangements planned in 2020.

Further evidence of our ongoing commitment to continual improvement was demonstrated through the following activities in 2019:

UK North Sea

- Continued raising workforce awareness of SAFE behaviours and control of major accident hazards ('MAH') via workshops, which provide a lasting demonstration of the potential consequences of hydrocarbon releases;
- Delivered the internal audit programme as planned, noting a number of audits were extended into the first quarter of 2020 due to business priorities on Heather, Thistle and at SVT. The learning opportunities identified throughout the assurance framework will further enhance our business performance in 2020, with additional opportunities identified to improve the MAH assurance process;
- Achieved a 55% reduction in the number of overdue and deferred safety critical repair orders compared to 2018;
- Continued with the roll-out of life-saving rules to underline the importance of maintaining standards and encouraging procedural compliance in our high-risk activities;
- Supported industry groups such as Step Change in Safety and Oil & Gas UK with our ongoing commitment to simplification initiatives;
- Exceeded the target for site safety-leadership visits. Leadership engagement is an important part of the safety programme and the quality and depth of these visits continues to increase, with a focus on process safety, workforce engagement, control of work and wellbeing. Members of the Aberdeen team took part in the 'boots on for safety' campaign, visiting the offshore assets, SVT, Aberdeen and Dubai offices with senior leaders from our contracting organisations; and
- Targeted wellbeing as an area of improvement for the EnQuest workforce with a number of initiatives successfully delivered, including: establishing a wellbeing committee to co-ordinate activities; almost 100 onshore personnel participated in a global health challenge; almost 400 personnel participated in the offshore fitness challenge 'RigRun'; and 84 personnel were trained on mental health and wellbeing matters.

Malaysia

- Excellent overall workplace safety performance was achieved with zero LTI's and a Total Recordable Injury Frequency ('TRIF') of 0.4 per million man hours (2018 TRIF: 1.0 per million man hours);
- PM8/Seligi achieved a milestone of nine years without an LTI and EnQuest Malaysia remained LTI free since its inception as an operator in March 2014, with Tanjong Baram also remaining incident free since the start of the fields development;
- A greater than 60% reduction in reported hydrocarbon loss of pressure containment events, with zero major hydrocarbon releases;
- Continued improvement in awareness of MAH Barrier management;
- Significantly reduced the proportion of safety critical maintenance deferrals, indicating excellent performance in relation to the maintenance of safety critical systems;
- Achieved zero overdue safety critical actions at the end of the year;
- Made excellent progress with the closeout of actions from the 2016 and 2018 Integrated Operational Asset Integrity Assurance ('IOAIA') audits, with 100% closure of the 2016 IOAIA and around two-thirds closure of the actions, ahead of plan, from the 2018 audit;
- Received awards from PETRONAS for excellence in offshore self-regulation and the 100% closure of 2016 IOAIA actions;
- Continued operation of the Malaysia HSE Committee and held the inaugural HSE representatives forum (for all HSE committee representatives from onshore and offshore);
- Held the third annual contractor HSE management forum, with an increased attendance from our valued partners;
- Held the first employee HSE forum in Malaysia, which will be incorporated with the contractor HSE forum from 2020; and
- Held a two-day media crisis-communications training course attended by all of the Malaysia leadership team.

Environment

EnQuest welcomes the drive for increased governance and transparency in relation to climate change, and discloses its assessment of associated potential risks to the execution of its strategy within the risks and uncertainties section of this report (see page 44). The Company's place within the wider energy transition is to improve performance and efficiencies at producing assets through short-cycle investments, avoiding the need for costly, carbon intensive and long-dated new developments. EnQuest recognises that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reduce the impact of carbon-related emissions on climate change. As such, the Group aims to reduce carbon and other atmospheric emissions from its operations where practicable. At present, the Group endeavours to do so through improving operational performance, minimising flaring and venting where possible, and applying appropriate improvement initiatives, noting the ability to reduce carbon emissions is constrained by the original design of our later-life assets where the main sources of atmospheric emissions come from combustion plant associated with power generation and flaring.

Current legislation requires the UK to achieve net-zero by 2050. EnQuest is committed to contribute positively towards achieving this target and in 2020, a systematic programme of work is being undertaken to put in place plans that will deliver a pathway to support this. These plans will include specific, measurable emissions reduction targets, supported by specific projects, which will form the basis of our 2021 corporate targets. EnQuest will engage internally with our operational and commercial teams and externally with industry bodies, such as Oil and Gas UK, to understand how we can make a difference in our emissions performance. With its low-sulphur content, demand for Kraken oil increased through 2019 and into 2020 as buyers in the maritime industry recognised it is playing a valuable part in reducing sulphur emissions in accordance with the International Maritime Organisation's new regulations that limit the sulphur content of bunker fuel. By selling directly to the fuel oil market, Kraken cargoes also avoid refining-related emissions. In Malaysia, EnQuest reduced flaring rates to approximately 45% below the regulatory limit as a result of high levels of compression uptime and enhanced optimisation of high gas:oil ratio wells. At the Sullom Voe Terminal, the Group's transformation programme includes plans to reduce emissions by approximately 80% by materially reducing the size of the onsite power plant and importing wind powered energy to meet the terminal's future needs. The Group will continue to report its greenhouse gas emissions as required.

There were no major spills to sea in either the UK or Malaysia. During 2019, the UK published its environmental compliance manual which, along with training and awareness sessions, has been designed to inform the workforce of our environmental responsibilities and help to improve environmental performance. EnQuest is an active member of Oil Spill Response Limited which provides a global response to oil spills through response and intervention services. It is the largest international cooperative funded by industry. In Malaysia, the Group is also a member of the Petroleum Industry of Malaysia Mutual Aid Group, which provides oil spill response and associated training for its members.

In Shetland, we remain committed to the continuing protection of the outstanding natural environment around the terminal through our support of the Shetland Oil Terminal Environmental Advisory Group ('SOTEAG'). Over four decades, SOTEAG has helped to ensure that Sullom Voe's special geographical and biological features remain unspoiled through high-quality marine environmental monitoring and management. EnQuest acknowledges the environmental sensitivities at SVT and the surrounding area. SVT operates under a Pollution Prevention and Control ('PPC') permit, granted by the Scottish Environmental Protection Agency ('SEPA').

Corporate responsibility review continued

People

A fair and rewarding work environment

We recognise our people are critical to our success and are committed to ensuring that EnQuest is a great place to work. Following the re–launch of our Company Values (which are outlined on page 7 of this report) in early 2019, our teams have been working hard to embed them into a number of our processes, such as our Human Resources appraisal and development procedures, and our way of working. A number of our employees received recognition for actively demonstrating our Values in the delivery of their objectives and we are developing further recognition initiatives for exceptional performance delivered in alignment with our Values.

We have made a firm commitment to provide our teams with growth and learning opportunities and our people development programmes have focused content aligned to our five Values. For example, the Group's Leadership Excellence Programme is designed to enhance our leaders' capabilities in delivering in their current and future roles within EnQuest. Learning and development also includes a focus on diversity, with unconscious bias training delivered to senior managers, while a training course on understanding and managing mental wellbeing is under development.

In our Malaysian offshore organisation, ensuring we continue to develop appropriate competency levels remains a priority. Job levels for the Group's offshore operations have been redefined, creating growth, learning and leadership opportunities. Eighty offshore operations employees embarked on a three–year competency enhancement programme during 2019. This programme is being run by INSTEP, a PETRONAS subsidiary service specialising in training and development of upstream oil and gas personnel. For our onshore personnel, an e–learning platform providing access to training modules in topics relevant to their areas of work has been made available, enabling employees to gain information and knowledge throughout the year at a self–defined pace. Completion will be monitored as part of the onshore competency assurance process. Reflecting the commitment EnQuest has displayed to developing its people, PETRONAS has approved a further one–year extension of EnQuest's Privilege Programme status.

In the UK, we standardised our offshore structures and implemented a consistent offshore rota pattern

> "We understand the importance of encouraging a culture of respect and openness and strive to create an environment where all individuals, teams and the Company as a whole can learn, develop and improve.

for all EnQuest employees in operations, maintenance and core safety positions. We also converted over 150 technicians from one of our contract service providers to EnQuest employees as part of these standardisation plans. These changes combined are expected to facilitate development and personnel movements and a better work–life balance.

Engagement

Throughout 2019, we have continued our structured programme of engagement through, for example, electronic communications, town halls, business briefings and meetings between top talent individuals and the Board. In addition, we established a Group–wide employee forum to establish a direct channel between the Board and our most valuable asset, our employees, as well as to improve further workforce engagement across the Company. The forum is jointly chaired by two Non–Executive Directors, Laurie Fitch and Phil Holland, and comprises 12 employee representatives from across the Group's onshore and offshore facilities. A total of four meetings were held during 2019 at which the members discussed a variety of topics including operational effectiveness, process enhancements, wellbeing, communications, people development and Company culture. Conclusions from these meetings are actively reported to and discussed by the Board and the leadership teams. The forum has already resulted in recommendations and measurable improvements in EnQuest's way of working and we believe the Company and its shareholders are better served as a result. Ongoing action plans continue to be developed and implemented over the near term, primarily focused on diversity, flexible working, workforce wellbeing, internal communications, personal development and maximising efficient working practices.

In November, the Group launched a Group–wide employee survey in order to better measure and understand the organisation to assist in the ongoing development of EnQuest, targeting any improvements that matter to our people. The survey closed in early January 2020 and more than 70% of our employees provided valued feedback. The results were presented to the Board in late January and rolled out to local leadership teams and managers in February. Employee communications and action plans were subsequently developed, with various focused activities planned to support highlighted areas for improvement across the business as required.

As part of the Group's transformation programme at the onshore Sullom Voe Terminal ('SVT'), significant progress has been made whilst staying focused on SAFE Results. The teams have been enthusiastic in shaping the terminal's future and the Oil & Gas Authority endorsed the revised SVT owner's strategy to extend the life of the facility in support of maximising economic recovery for the 33 offshore fields that currently export crude oil through the terminal. During 2019, EnQuest entered into a consultation with employees on a controlled reduction to the existing workforce and better alignment of employees' terms and conditions with market rates. The consultation period ended in September, with the required workforce reduction achieved through a combination of voluntary redundancies and the redeployment of employees across EnQuest's assets. Many of these changes came into effect in the first quarter of 2020 through a structured and controlled management of change. EnQuest has also been in negotiation with UNITE, the union ('UNITE'), with respect to some specific proposed changes to terms and conditions for their members. In March, UNITE informed EnQuest that they will ballot their members on the Company's offer, with a recommendation that it is accepted.

The Aberdeen-based wellbeing committee, established in 2019, enjoyed an active year organising two mental health awareness courses for parents and carers at which more than 40 staff participated. In addition, the committee ran three training courses on managing anaphylaxis attended by over 35 people and led the move to become the main sponsor of the Corporate Games 2020 in Aberdeen, which will see teams from 30 companies compete in ten different sporting events throughout the year.

EnQuest Malaysia strongly encourages a healthy lifestyle for all employees and initiated a 'Let's Get Fit' programme in collaboration with Petronas Malaysia Petroleum Management ('MPM') and Petroleum Arrangement Contractors ('PACs'). Staff were invited to participate in 17 wellness classes to stay healthy and keep fit. 2019 also saw the establishment of a Sports and Recreational Club committee to promote the health and wellbeing of our workforce, while growth and learning was encouraged through a programme of knowledge sharing sessions with both internal and external speakers drawn from a wide variety of professional disciplines. These sessions included presentations from the Malaysia Nature Society, the Inland Revenue Board and the Employee Provident Fund as well as talks covering waste management, HSE, 'Wells for Dummies' and a briefing on cyber security.

Diversity and inclusion

In early 2019, our revised Diversity and Inclusion Policy, incorporating our new Values, was launched. We encourage a culture of respect and openness which values the diversity of all our people. We also expect to see collaborative and inclusive teamwork where we combine our collective capabilities to deliver SAFE Results. We wish to create an environment where all individuals, teams and the Company as a whole can learn, develop and improve. We recognise that people from different backgrounds, experience and abilities can bring fresh ideas, perspectives and innovation to improve our business and working practices. Furthermore, EnQuest is committed to improving workforce diversity across the Company. During 2020, enhanced diversity balance will continue to be a core driver of our recruitment, employment and training policies in how we attract, retain and develop a wide range of talent in our organisation as well as continuing our STEM outreach in local schools. The goal will be not only to establish improved ratios in 2020 and beyond, but importantly, to demonstrate that viable pipelines to far greater diversity balance in EnQuest have been established for the future.

Our people and organisational strategy is to ensure that we have the right people, in the right roles, driving performance and delivering efficiencies as we continue to pursue our strategy for growth, and so we ensure our processes are open and transparent, providing equal opportunity for applicants. EnQuest is committed to diversity, including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams. EnQuest will continue with this approach, recruiting individuals on merit and their suitability for the role and cognisant of the skills and experience of the rest of the executive and senior management.

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

Our gender pay gap

We have seen improvements in all our gender pay gap statistics over the previous reporting period, with the average bonus gap reduced by almost half and, for the first time, more women than men receiving a bonus. These improvements reflect changes to the Group's workforce and the efforts the Company has made to redress the imbalance in its gender pay gap figures, although we recognise we still have more to do.

Putting it into context

We operate in an industry where the talent pool and labour market is predominantly male. The representation of women across our UK business is also imbalanced with 10% of roles held by women. The level of representation reduces in roles of higher seniority. As is the case across our industry, we recognise that any improvements in this disparity cannot be resolved immediately but with commitment and actions over time.

As such, we continue to look for opportunities where we can further develop and enhance our business practices to support and encourage more gender diversity in the workplace. For example, in Malaysia, one-quarter of the leadership team are female, yet we have a larger gender imbalance in the UK at leadership level. In an effort to understand this imbalance and develop appropriate remedies, we recently signed up to the UK AXIS Network pledge. We have also been active in raising awareness of the importance of women in engineering. Through our UK internship programme, which was launched in 2018, we have seen a substantial increase in the pool of female students applying for an internship and, in 2019, we successfully placed all of our female applicants within our technical services, health and safety and operations functions. We ran a successful social media campaign aligned with the 'International Women in Engineering' day and sponsored the 'Empowering women in engineering and technology' workshop in Malaysia, both of which highlighted the opportunities the industry and EnQuest has to offer.

Corporate responsibility review continued

Our gender pay gap results
The information collected was based on the relevant pay period of:

- the month of April 2019, for the purposes of calculating salary earned; and
- the year April 2018 – March 2019 for the purposes of calculating bonus paid.

The results show improvements on all metrics. The average rate of total pay for women is 23.0% below the average rate of total pay for men compared to the 29.5% difference reported last year. The average bonus gap for women is 28.5% below the average bonus paid for men, which represents a material decrease when compared to the percentage difference reported last year of 53.9%. On the comparison of median total pay, the percentage gap difference also reduces, to 17.1% from 22.9%, while in the last reporting period, the statistics showed a complete switch in the median bonus received by women which was 15.3% higher than men. Previously, the difference was a 33.9% difference in favour of men. Similarly, a higher percentage of women than men received a bonus (92% of women and 75% of men) for the first time during the latest reporting period.

Our ongoing commitment
We are committed to delivering equal pay to our employees and to further narrowing our gender pay gap. We will do this through living our Values, which incorporate respect and openness, regular benchmarking exercises to ensure that our salaries are comparable regardless of gender, and that our recruitment and promotion processes are fair and balanced, focused on having the right people in the right roles. In 2020, we will be focusing on:

- the imbalance of women in leadership roles across EnQuest and what steps we can take to establish pathways to career progression;
- acting where appropriate on the feedback received from our employee forum and the global employee engagement survey; and
- seeking out ways that EnQuest can be a proactive member in our industry on diversity and inclusion initiatives.

Community
Making a positive contribution to the communities in which we live and work around the world remains a key part of our activities at EnQuest, and we continue to build on the strong relationships we have established with a variety of charities and partner organisations.

North Sea
Across our North Sea operational base, we support a diverse range of charities through active engagement and funding. In 2019, we raised a total of £95,000. This was achieved primarily through two initiatives. The first is offshore in the North Sea, where strong HSE performance over an extended period on each asset, including no health and safety incidents, environmental compliance and process availability, enables a donation to be made to charities and community groups of the installation's choice. This raised £75,000 in 2019, which was presented to the charities in January 2020.

The second is a similar project onshore at SVT in Shetland, where EnQuest is the operator. A 30-day period of strong HSE performance at the terminal triggers a donation to be pledged to local charities and worthy causes nominated by staff. This raised £20,000 and was disbursed in Shetland during 2019 on behalf of the SVT owners.

We have maintained our involvement with our two charities of choice this year in Aberdeen: CLAN Cancer Support, which offers specialised support to cancer patients, their families and carers in the Aberdeen area; and Archway, which is focused on support for young people and adults with learning disabilities. Funding was raised through a number of scheduled activities throughout the year, including a bake sale at Annan House and the Global Challenge, Virgin Pulse's turnkey wellbeing challenge, which saw our 14 teams competing against thousands of other corporate teams over 100 days. Our 'Wells Being' team came an impressive 763rd out of over 32,500 teams and were the top UK team within the UK Energy sector.

In Shetland, EnQuest has continued as a key sponsor of a number of important local community programmes, including the SVT Participant's Tenth Anniversary Education Trust, established to promote and encourage the education of the island residents studying a discipline that is likely to contribute to the economic or social development of Shetland. In addition, EnQuest has continued to support important local community events on the islands in 2019, including an annual beach clean–up, Shetland Folk Festival Special Needs concert, the Shetland Youth Volunteering Awards, and local career events to introduce the oil and gas industry to high school students on the islands.

Malaysia
Our Malaysia operations continue to support a very active programme of local community initiatives and charities, and we have seen the development of a strong sponsorship programme in 2019 for both internships and graduates.

In 2019, EnQuest Malaysia engaged with a total of 17 students drawn from our pool of internships and graduates. We selected 12 local university students for internship placements in a variety of disciplines ranging from Operations to Wells, HSEA, Supply Chain Management as well as Finance and HR, as part of our graduate recruitment process. We also hired three new graduates through the joint 'Prodigy' programme, an industry–driven collaboration between PETRONAS MPM and PACs, ultimately converting them from contract hire to permanent positions within the Company. In addition, we hired two graduates for a variety of placements in the disciplines of Finance and Engineering.

Through a scholarship programme, EnQuest Malaysia is also supporting two undergraduate students, one jointly with The Amjad and Suha Bseisu Foundation, in geoscience and engineering at the University Malaya, as part of our commitment to promote STEM (Science, Technology, Engineering and Mathematics) subjects in education.

EnQuest Malaysia has maintained its strong links with the Sungai Pergam Orang Asli Primary School in Terengganu throughout 2019, focusing its efforts on the 'Love My School' student bursary programme. This initiative is in collaboration with the MyKasih Foundation, a non–profit organisation that helps low–income families through food aid and education, providing 69 students with funds to pay for school meals and learning essentials including books and stationery.

We also continue to offer support to the Good Samaritan House orphanage, hosting a Christmas party and movie trip for 35 orphaned children and underprivileged young adults. Some members of our team joined with the children for a choral performance at an end–of–year event for staff, and the children received their specially selected gifts from a 'Wishing Tree' provided by members of our team.

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

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

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

As part of the Group's Risk Management Framework, the Board is supplied annually with an 'assurance map' that provides an insight into the status of the main sources of controls and assurance in respect of the Group's key risk areas (see pages 44 to 53 for further information on how the Group manages its key risk areas). Whilst this provides some formal assurance as to how the Group reinforces its requirements in respect of business conduct, the Board also recognises the importance of promoting the right culture within the Group and this remains an area of focus for the Group.

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

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

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

Corporate responsibility review continued

Task force on climate-related financial disclosures

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

TCFD framework	EnQuest disclosures	Reference
Governance		
• Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	EnQuest's purpose is to enhance hydrocarbon recovery and extend the useful lives of assets in a profitable and responsible manner, helping to fulfil energy demand requirements as part of the transition to a sustainable lower-carbon world. The Board takes seriously its roles in promoting the long-term success of the Group, generating value for shareholders and having regard to the interests of other stakeholders. The Board has established a Risk Management Framework ('RMF') to enhance effective risk management within the Board approved statement of risk appetite, while the Group's Safety and Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth and climate change related issues are considered within the context of a number of risk areas. During 2020, the Committee will consider whether 'climate change' should be categorised as a discrete principal risk in its own right in addition to the recognition already accorded to climate change related issues across the existing principal risk areas. The Executive Committee reviews and updates the Group Risk Register quarterly based on the individual risk registers of the business. As part of its strategic, business planning and risk processes, the Group considers how a number of macro-economic themes (of which several are increasingly influenced by climate change) may influence its principal risks. In 2019, an ESG steering group, comprising members of the Executive Committee and other appropriate managers, was established with the responsibility to consider how the Company could improve its greenhouse gas emissions, looking at measurement, appropriate metrics and methodology. From this work, specific emissions-related project opportunities and targets will be established, recognising the ability to reduce carbon emissions is constrained by the original design of the Group's later-life assets.	Pages 44 to 53, 58 to 92 and 96 to 101

TCFD framework	EnQuest disclosures	Reference
Strategy • Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	EnQuest's business model is distinct from companies that have a material exploration component to their business and it is, therefore, less exposed to the much longer duration of exploration, discovery, development and production. EnQuest primarily acquires mature and underdeveloped assets from other industry participants and drives performance improvements, including the reduction of carbon intensity and emissions, through short-cycle, quick payback investments. As majors and other operators continue to shift their focus from mature basins such as the North Sea and Malaysia, there will be further opportunities for the Company to access additional resources. The combination of short cycle-investments and long-term energy demand scenarios forecasting hydrocarbons to remain an important part of the energy mix, there is a reduced risk of 'stranded assets' within EnQuest's business model. The most material risk factor to EnQuest's business model is the oil price, and climate change is one of many potential influencing factors on the oil price. EnQuest's planning and investment decision processes cater for low oil price scenarios, and include a carbon cost associated with forecast emissions. In the short term, EnQuest reviews the impact of different oil prices in its going concern and viability statements.	Pages 2 to 25, 32 to 33 and 48
Risk Management • Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the Board and the Executive Committee in order to identify, assess and manage climate-related risks. Through Oil & Gas UK and other industry associations, the Group engages with government and other appropriate organisations in order to keep abreast of expected and potential regulatory and/or fiscal changes.	Pages 44 to 53
Metrics and targets • Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets.	EnQuest has reported on all of the emission sources within its operational control, as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In the UK, we publish our annual Environmental Statement in line with the regulatory requirement under the OSPAR recommendation 2003/5. These statements, which can be found in the Corporate responsibility section on our website www.enquest.com, are an open and transparent representation of our environmental performance across our offshore operations. The ESG steering group is in the process of developing specific emissions-related project opportunities and targets, recognising the ability to reduce carbon emissions is constrained by the original design of the Group's later-life assets. These are anticipated to be published later in 2020.	Pages 35 to 37 and 100 to 101

Risks and uncertainties

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

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

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

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

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

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus. The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of the business. The Group Risk Register, along with an assurance mapping and controls review exercise; a risk report (focused on identifying and mitigating the most critical and emerging risks through a systematic analysis of the Company's business, its industry and the global risk environment); and a continuous improvement plan, is periodically reviewed by the Board (with senior management), to ensure that key issues are being adequately identified and actively managed. In addition, the Group's Safety and Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth (for further information, please see the Safety and Risk Committee Report on page 96).

As part of its strategic, business planning and risk processes, the Group considers how a number of macro-economic themes may influence its principal risks. These are factors about which the Company should be cognisant in developing its strategy, including long-term supply and demand trends. They include, for example, developments in technology, demographics, climate change and how markets and the regulatory environment may respond, and the decommissioning of infrastructure in the UK North Sea and other mature basins. These themes are relevant to the Group's assessments across a number of its principal risks. The Group will continue to monitor these themes and the relevant developing policy environment at an international and national level and will adapt its strategy accordingly. For example, EnQuest remains conscious of the potential for a number of aspects of climate change to amplify certain principal risks over time (e.g. in relation to access to capital markets — see 'Financial' risk on page 49 — and oil price — see 'Oil and gas prices' risk on page 48). The Group is also conscious that as an operator of mature producing assets with limited appetite for exploration, it has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets.

As part of its evolution of the Group's Risk Management Framework, the Safety and Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 18 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below). In the first quarter of 2020, as a responsible operator, EnQuest has been monitoring the evolving situation, and consequent emerging risk, with regards to the spread of COVID-19. 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. 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 situation will continue to be monitored.

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The Board, supported by the Audit Committee and the Safety and Risk Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2019 to the date of this report and carried out a robust assessment of the Company's emerging and principal risks and the procedures in place to identify and mitigate these risks. The Board confirms that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Key business risks

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

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

Set out on the following pages are:
- the principal risks and mitigations;
- an estimate of the potential impact and likelihood of occurrence after the mitigation actions, along with how these have changed in the past year; and
- an articulation of the Group's risk appetite for each of these principal risks (see page 6 for an explanation of the KPI symbols).

Amongst these, the key risks the Group currently faces are a sustained decline in oil prices (see 'Oil and gas prices' risk on page 48), a lack of growth opportunities and/or a materially lower than expected production performance for a prolonged period (see 'Production' risk on page 47, 'Subsurface risk and reserves replacement' on page 52).

RISK

HEALTH, SAFETY & ENVIRONMENT ('HSE')

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

Potential impact
Medium (2018 Medium)

Likelihood
Medium (2018 Low)

There has been no material change in the potential impact. However, we have increased the likelihood of this risk, reflecting the possibility of hydrocarbon releases given the age of many of the Group's assets. We have made an absolute commitment to ensure that exposures are known and recognise that there was a high-potential incident on the Heather platform resulting in the shutdown of production. There was an extensive investigation to determine root causes and implement actions to address shortcomings to prevent re-occurrence. The Group's overall record on HSE remains robust.

The availability of competent people given the potential impacts of COVID-19, could impact the operations of the Group.

Related KPIs — A, B, C, D, E, F, G

APPETITE

The Group's principal aim is SAFE Results with no harm to people and respect for the environment. Should operational results and safety ever come into conflict, employees have a responsibility to choose safety over operational results. Employees are empowered to stop operations for safety-related reasons, as demonstrated in 2019 with the precautionary down-man of Thistle due to integrity uncertainty in relation to the unused storage tanks based upon findings from the planned inspection programme.

2019 had challenges that have allowed EnQuest to learn and reinforce its HSE culture. The Group's desire is to maintain upper quartile HSE performance measured against suitable industry metrics.

MITIGATION

The Group maintains, in conjunction with its core contractors, a comprehensive programme of assurance activities and has undertaken a series of deep dives into the RMF bowties that have demonstrated the robustness of the management process and identified opportunities for improvement. A HSE continual improvement programme is in place, promoting a culture of engagement and transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk has been enhanced through further emphasising the role of HSE oversight within the Safety and Risk Committee's terms of reference. During 2019, the Group continued to focus on control of major accident hazards and 'SAFE Behaviours'.

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

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

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

Risks and uncertainties continued

RISK

REPUTATION

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

Potential impact
High (2018 High)

Likelihood
Low (2018 Low)

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

Related KPIs — A, C, D, E, G, H

APPETITE

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

MITIGATION

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

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

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

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

All personnel are authorised to shut down production for safety-related reasons: for example, in 2019, prioritising safety, we shut down production at the Heather and Thistle fields, please see page 36 for further details.

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RISK

PRODUCTION

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

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

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

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

Potential impact
High (2018 High)

Likelihood
Low (2018 Low)

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

The Group has delivered on its 2019 production target, reflecting the improved FPSO performance at Kraken, the contribution from additional equity interest in Magnus and the successful pipeline replacement at Scolty/Crathes. However, the completion of the Dunlin bypass export project sees volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System, therefore further increasing reliance on the Sullom Voe Terminal.

Related KPIs — B, C, D, E, G, H

APPETITE

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

MITIGATION

The Group's programme of asset integrity and assurance activities provide leading indicators of significant potential issues which may result in unplanned shutdowns or which may in other respects have the potential to undermine asset availability and uptime. The Group continually assesses the condition of its assets and operates extensive maintenance and inspection programmes designed to minimise the risk of unplanned shutdowns and expenditure. The Group monitors both leading and lagging KPIs in relation to its maintenance activities and liaises closely with its downstream operators to minimise pipeline and terminal production impacts.

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

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

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

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

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

Risks and uncertainties continued

RISK

OIL AND GAS PRICES

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

Potential impact
High (2018 High)

Likelihood
High (2018 Medium)

The potential impact remains high, with the likelihood increased to high as a result of the significant decline in oil price in March 2020. This decline was driven by a combination of OPEC and Russia failing to agree limits on supply and the impact of COVID-19 on global oil demand.

The Group recognises that climate change concerns and related regulatory developments are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply.

Related KPIs — B, D, E, F, G, H

APPETITE

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

MITIGATION

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

The Group monitors oil price sensitivity relative to its capital commitments and has a policy (see page 151) which allows hedging of its production. As at 8 April 2020, the Group had hedged approximately 4.0 MMbbls. This ensures that the Group will receive a minimum oil price for its production.

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

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

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

RISK

HUMAN RESOURCES

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

Potential impact
Medium (2018 Medium)

Likelihood
High (2018 High)

The impact and likelihood are unchanged but reflect the level of competition in the sector, particularly in the UK.

Related KPIs — A, B, C, D, E, F, G

APPETITE

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

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

MITIGATION

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

We recognise that our people are critical to our success and so are continually evolving our end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that we have the right person for the job and that we provide appropriate training, support and development opportunities, with feedback to drive continuous improvement whilst delivering SAFE Results. The culture of the Group is an area of ongoing focus and an employee survey was completed at the end of 2019. Its results were encouraging and the Company is now developing its responses to the findings.

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

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

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

EnQuest introduced a Group employee forum during 2019 to add to its employee communication and engagement strategy. This forum has improved engagement and interaction between the workforce and the Board.

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

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RISK

FINANCIAL

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

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

Potential impact
High (2018 High)

Likelihood
High (2018 Medium)

The potential impact remains high, with the likelihood raised to high following the significant decline in oil price in March 2020. The Group has made material progress in reducing its term loan facility ahead of schedule, with no further amortisations due in 2020. However, there remains a further $440 million (including payment in kind interest) to be repaid or refinanced during 2021. Significant reductions in the oil price or material reductions in production, will likely have a material impact on the Group's ability to repay or refinance the loan facility in 2021. Further information is contained in the Financial Review, particularly within the going concern and viability disclosures on pages 32 and 33. In addition, there is potential for the cost of capital to increase and insurance availability to erode, as factors such as climate change concerns and oil price volatility may reduce investors' and insurers' acceptable levels of oil and gas sector exposure and the cost of emissions trading certificates may trend higher.

Related KPIs — B, C, F, G, H

APPETITE

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

MITIGATION

Debt reduction is a strategic priority. During the year, the Group repaid a total of $325 million of the term facility, with an additional $35 million repaid in January 2020.

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

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

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

The Group is continuing to enhance its financial position through maintaining a focus on controlling and reducing costs through supplier renegotiations, assessing counterparty credit risk, hedging and trading, cost–cutting and rationalisation. Where costs are incurred by external service providers, the Group actively challenges operating costs. The Group also maintains a framework of internal controls.

With the decline in oil price in March 2020, the Group announced it is taking quick and decisive action to reduce operating and capital expenditure in 2020 and beyond, with a view to targeting cash flow breakeven of c.33/Boe in 2020 and c.27/Boe in 2021.

Risks and uncertainties continued

RISK

FISCAL RISK AND GOVERNMENT TAKE

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

Potential impact
High (2018 High)

Likelihood
Medium (2018 Medium)

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

Related KPIs — E, G

APPETITE

The Group faces an uncertain macro-economic and regulatory environment.

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

MITIGATION

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

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

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

RISK

PROJECT EXECUTION AND DELIVERY

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

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Low)

The potential impact and likelihood remain unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects.

Related KPIs — B, D, E, F, G, H

APPETITE

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

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

MITIGATION

The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place, notably the Capital Projects Delivery Process, to ensure that deadlines are met, costs are controlled and that design concepts and the Field Development Plan are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication.

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

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RISK

PORTFOLIO CONCENTRATION

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

Potential impact
High (2018 High)

Likelihood
High (2018 High)

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

Related KPIs — B, C, D, E

APPETITE

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

MITIGATION

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

The Group also constantly keeps its portfolio under rigorous review and, accordingly, actively considers the potential for making disposals and divesting, executing development projects, making international acquisitions, expanding hubs and potentially investing in gas assets or export capability where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash flow and strengthening the balance sheet.

RISK

JOINT VENTURE PARTNERS

Failure by joint venture parties to fund their obligations.

Dependence on other parties where the Group is not the operator.

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Medium)

There has been no material change in the potential impact. We have reduced the likelihood in line with the reduction in the Group's exposure to capital–intensive projects requiring funding from third parties.

Related KPIs — C, D, E, F, G

APPETITE

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

MITIGATION

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

The Group generally prefers to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets.

Risks and uncertainties continued

RISK

SUBSURFACE RISK AND RESERVES REPLACEMENT

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

Potential impact
High (2018 High)

Likelihood
Medium (2018 Medium)

There has been no material change in the potential impact or likelihood. During the year, EnQuest was awarded the Block PM409 PSC in Malaysia. This block is contiguous to the Group's existing PM8/Seligi PSC, providing low–cost tie–back opportunities to the Group's existing Seligi main production hub.

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

Related KPIs — B, C, D, E, F, G, H

APPETITE

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

MITIGATION

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

All analysis is subject to internal and, where appropriate, external review and relevant stage gate processes. All reserves are currently externally reviewed by a Competent Person. In addition, EnQuest has active business development teams, both in the UK and internationally, developing a range of opportunities and liaising with vendors/government.

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

RISK

COMPETITION

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

Potential impact
High (2018 High)

Likelihood
High (2018 High)

The potential impact and likelihood have remained unchanged, with a number of competitors assessing the acquisition of available oil and gas assets.

Related KPIs — C, D, E, F, H

APPETITE

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

MITIGATION

The Group has strong technical and business development capabilities to ensure that it is well positioned to identify and execute potential acquisition opportunities.

The Group maintains good relations with oil and gas service providers and constantly keeps the market under review.

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RISK

INTERNATIONAL BUSINESS

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

Potential impact
Medium (2018 Medium)

Likelihood
Medium (2018 Medium)

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

During 2019, EnQuest was awarded the Block PM409 PSC in Malaysia. Within the initial four-year exploration term of the PSC, the partners are committed to the drilling of one well.

Related KPIs — A, D, E, F, G, H

APPETITE

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

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

MITIGATION

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

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

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

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

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

RISK

IT SECURITY AND RESILIENCE

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

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Low)

Related KPIs — A, B

APPETITE

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

MITIGATION

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

The Safety and Risk Committee undertook additional analyses of cyber-security risks in 2019. Recognising that it is one of the Group's key focus areas, the Group now employs a cyber-security manager. Work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2020.

Stefan Ricketts
Company Secretary

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 8 April 2020.