Material growth in production and cash generation; all 2018 guidance reaffirmed. Repayment of debt remains a priority

Results for the six months ended 30 June 2018

7 September 2018

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

Highlights and outlook

- EnQuest is proposing to undertake a Rights Issue for $138 million to facilitate the exercise of its option to acquire the remaining 75% interest in the Magnus field (see separate announcement).
    - The acquisition would bring approximately 60 MMboe of 2P reserves, a material increase to production and provide an additional net present value to the Group of approximately $500 million
    - Funds from the Rights Issue will primarily be used for the $100 million cash consideration and to deliver a two-well 2019 infill drilling programme
- Group net production up 45.9%, averaging 53,990 Boepd in the six months to end June 2018; full year 2018 guidance of 50,000 Boepd to 58,000 Boepd reaffirmed
    - Kraken average gross production was c.31,000 Bopd in the first half of 2018 and has subsequently improved following increased water injection; DC4 subsea infrastructure installed ahead of drilling programme
    - New wells at Heather, Magnus and PM8/Seligi are onstream and producing in line with the Group's expectations; second Magnus well due online in the coming days
    - Three Alma/Galia workovers completed in August; aggregate production increased as planned
- Increased revenue of $548.3 million (2017: $294.8 million) and EBITDA of $311.9 million (2017: $151.0 million); higher production volumes and market prices partially offset by the impact of hedging
- Unit operating costs at $22.6/boe (2017: $24.9/boe)
- Gross costs at SVT on track to reduce from c.£200 million in 2017 to c.£150m in 2018, reflecting EnQuest's operating model and focus on efficiencies
- Material increase in cash generated from operations at $318.3 million (2017: $136.9 million); lower cash capital expenditure of $125.8 million (2017: $205.1 million)
- At 30 June 2018, net debt had reduced to $1,973.4 million (excluding Payment in Kind interest, net debt was $1,845.8 million), with cash and available bank facilities of $256.8 million
- Financing agreement for $175 million with funds managed by Oz Management. The financing is ring-fenced on a 15% share of Kraken with repayment made out of the cash flows from this 15% share
- The Group's improved cash generating capacity enabled the early cancellation of $50 million of the Group's credit facility in May, with an additional $25 million voluntary prepayment in August. The term facility has consequently reduced to $1,050 million
- The Group continues to prioritise maximising cash flow to facilitate the reduction of net debt
- Put options in place for c.5.3 MMbbls of oil for the second half of 2018 at an average price of c.$66/bbl

EnQuest Chief Executive, Amjad Bseisu, said:

"As we have announced today, the Board is proposing to exercise its option to acquire the remaining 75% interest in the Magnus field, with the cash consideration for Magnus to be funded through a Rights Issue, which will also provide funds to drill two infill wells in 2019. Our view of Magnus as a high quality asset has been enhanced since acquiring our initial 25% interest. The option is on attractive economic terms and upon completion, our increased ownership will provide the Group with an immediate and material increase to the Group's existing 2P reserves and annual production.

"In our existing business, recent performance at Kraken has been improving with production in July and August averaging around 33,000 Bopd. The successful drilling and workover campaigns we have undertaken this year at Magnus, PM8/Seligi Heather and Alma/Galia, combined with robust underlying production performance across the portfolio underpins our confidence in delivering within our full year guidance range of 50,000 to 58,000 Boepd.

"We continue to focus on debt reduction and liquidity and have seen the early cancellation of $75 million of the Group's credit facility and the execution of a ring-fenced financing agreement in relation to a 15% interest in Kraken. The Group's improved cash generating capacity will further support a reduction in debt.

"The Group's significant potential within the portfolio, underpinned by Magnus, PM8/Seligi and Kraken, ensure EnQuest is well positioned for long-term sustainable growth."

Production and financial information

	H1 2018	H1 2017	Change %
Production (Boepd)	53,990	37,015	45.9
Revenue and other operating income ($m)*	548.3	294.8	86.0
Realised oil price ($/bbl)*	59.5	51.9	14.6
Average unit operating expenditure ($/Boe)	22.6	24.9	(9.2)
EBITDA ($m)**	311.9	151.0	106.6
Gross profit ($m)	100.8	46.1	118.7
Profit before tax & net finance costs ($m)	105.2	33.6	213.1
Reported profit after tax ($m)	43.3	29.3	47.8
Reported basic earnings per share (cents)	3.8	2.6	46.2
Cash generated from operations ($m)	318.3	136.9	132.5
Cash capex ($m)	125.8	205.1	(38.7)
	End June 2018	**End 2017**	
Net (debt)/cash ($m)***	(1,973.4)	(1,991.4)	(0.9)

* Including losses of $77.3 million (2017: gain of $0.3 million) associated with EnQuest's oil price hedges. **EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gains/loss on foreign currency derivatives related to capital expenditure. *** Net (debt)/cash represents cash and cash equivalents less borrowings, stated excluding accrued interest and the net-off of unamortised fees and IFRS 9 adjustments.

Summary financial review of H1 2018

(all figures quoted are in US Dollars and relate to Business performance unless otherwise stated. Comparative figures for the income statement relate to the period ending 30 June 2017 and the balance sheet as at 31 December 2017.)

Revenue was $548.3 million for the six months ended 30 June 2018 compared to $294.8 million for the same period in 2017. This increase was driven by material growth in the Group's production, primarily reflecting the contributions from Kraken and Magnus, and higher market prices, partially offset by the impact of the Group's hedging programme. The commodity hedge programme resulted in realised losses of $77.3 million in the first half of 2018 (2017: realised gain of $0.3 million). Consequently, the Group's blended average realised oil price was $59.5/bbl for the six months ended 30 June 2018, compared to $51.9/bbl received during the first half of 2017. Excluding the impact of hedging, the average realised oil price was $68.1/bbl in the first half of 2018, compared to $51.8/bbl received during the first half of 2017.

Revenue is predominantly derived from crude oil sales and for the six months ended 30 June 2018 crude oil sales totalled $608.9 million compared with $286.8 million for the comparative period in 2017. The increase in revenue reflects both higher production and oil price. Revenue from the sale of gas and condensate in the period was $10.7 million (2017: $0.4 million), reflecting the gas sales derived from Magnus.

Business performance cost of sales were $447.5 million for the six months ended 30 June 2018 compared with $248.6 million for the same period in 2017. Operating costs increased by $54.0 million to $220.6 million, reflecting the inclusion of the Kraken and Magnus assets in the Group's production portfolio. The Group's average unit operating cost has decreased by 9.2% to $22.6/Boe from the comparative period.

Depletion expense was $216.5 million compared with $94.4 million for the six months ended 30 June 2017, mainly reflecting the additional production from Kraken and Magnus in 2018.

EBITDA for the six months ended 30 June 2018 was $311.9 million compared with $151.0 million for the same period in 2017. The increase in EBITDA is driven by the increase in revenue, partially offset by operating costs.

Net other income of $11.4 million (2017: net expenses of $11.3 million) is primarily comprised of net foreign exchange gains, which relate to the revaluation of Sterling-denominated amounts in the balance sheet.

The tax credit for the six months ended 30 June 2018 of $23.0 million (2017: $25.0 million tax credit) is mainly due to Ring Fence Expenditure Supplement ('RFES') on UK activities.

The Group's reported cash generated from operations for the six months ended 30 June 2018 was $318.3 million, compared to $136.9 million for the six months ending 30 June 2017. The main driver for this increase is the impact of higher production and oil prices on revenue.

Exceptional items were a net gain of $34.5 million before tax for the six months ended 30 June 2018 (2017: loss of $20.0 million). Revenue included unrealised gains of $2.5 million in respect of the mark to market movement on the Group's commodity contracts (2017: unrealised gains of $62.3 million). Other exceptional items in the first half of 2018 include an increase in the fair value adjustment of the discounted purchase option valuation for Magnus and associated infrastructure assets of $41.8 million.

EnQuest's net debt decreased from $1,991.4 million at the end of 2017 to $1,973.4 million at 30 June 2018. This includes $127.6 million of inception to date interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('PIK'), compared to $90.5 million at 31 December 2017. Excluding the PIK capitalised in 2018, net debt reduced by $55.1 million.

UK corporate tax losses at 30 June 2018 increased to $3,139.3 million (2017: $3,121.3 million).

Operating review

Production details

Net daily average Production on a working interest basis	H1 2018	H1 2017
	(Boepd)	(Boepd)
Northern North Sea	18,002	17,099
Central North Sea	6,108	10,849
Kraken	21,655	97[1]
Total UKCS	**45,765**	**28,045**
Total Malaysia	**8,225**	**8,969**
Total EnQuest	**53,990**	**37,015**

[1] Net production since first oil on 23 June, averaged over the six months to the end of June 2017.

Northern North Sea operations

Average production in the six months to end June 2018 of 18,002 Boepd was 5.3% higher than the same period in 2017. Increased production was driven by the contribution from Magnus and better than expected production at Heather from the H-67 well, which was completed and brought online in March. This was partially offset by planned maintenance shutdowns at Thistle and the Dons being accelerated to align with the revised shutdown schedule for their export route, combined with natural declines across the area.

Performance at Magnus in the period has been strong following successful plant de-bottlenecking, completion of the planned maintenance shutdown ahead of schedule and first production from the M-62 well delivered in May. The Group has also successfully completed the M-63 well below budget and ahead of schedule, having applied key lessons learned from the drilling of M-62. Production is expected to commence in the coming days. Water injection performance has been strong, with high levels of uptime in the first half of 2018 reflecting the Group's analysis of historical power generation reliability and focus on alleviating downtime issues. There are clear plans in place to increase injection capacity within the water system by returning to service the second of two Deaeration towers on the asset and improve pump operations in 2019.

Outside of the planned maintenance shutdowns at Thistle and the Dons, high levels of plant uptime and water injection efficiency continued to be maintained. In June, the Dunlin bypass export project was sanctioned which, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian pipeline system on to the Sullom Voe Terminal. The pipeline order has been placed, with installation work expected to be undertaken in the spring and summer of 2019.

As part of the Group's asset life extension strategy, improving asset integrity and reducing longer-term decommissioning costs, EnQuest continues to pursue a series of partner-funded idle well reservoir abandonments. At the end of August, the first five of six well abandonments at Thistle have been successfully concluded ahead of schedule and at a lower cost than budgeted.

The Group continues to deliver safe and stable operations at the Sullom Voe Terminal while progressing the optimisation of its planned work programme and identifying and implementing cost-efficiency initiatives. The Group is firmly on track to reduce operating costs at the terminal by around 25%, from approximately £200 million in 2017 to around £150 million in 2018. These savings are being achieved while also delivering a strong safety performance, which remains the top priority, and high levels of site availability. They have been driven by the application of an asset business model at the terminal, focused supply chain management including utilising the Group's increased scale, efficient project delivery through the reduction in the number of projects and concurrent activities and simplifying and improving utilisation of the resources on site. Further savings are planned for 2019.

Central North Sea operations

Production at both Scolty/Crathes and Alma/Galia was in line with expectations and therefore, with expected declines, average Central North Sea production in the six months to end June 2018 of 6,108 Boepd was lower than the same period in 2017.

In June, the installation of a new pipeline at Scolty/Crathes was sanctioned. The pipeline is expected to significantly improve production levels from the development following its installation, planned for the summer of 2019. Wax restrictions on production will continue to be managed until the pipeline is operational.

Following the successful completion of the three-well Electric Submersible Pump related workovers in the third quarter at Alma/Galia, aggregate production has improved as planned. The scheduled maintenance shutdown was also completed during the workover campaign to minimise production losses.

Production efficiency in the period for the Greater Kittiwake Area has improved, reflecting the production optimisation workscopes undertaken in 2017. The extensive planned maintenance shutdown scope was executed successfully earlier in the third quarter. Output from Alba in the first half of 2018 was in line with expectations.

Kraken

Average gross production in the six months to end June 2018, which includes the impact of the March maintenance shutdown, was slightly below expectations. Lower water injection rates in the second quarter, due to additional maintenance of the sea water coarse filters, impacted reservoir pressure which in turn drove lower average production. Following completion of the required filter maintenance, water injection rates were significantly increased and gross production has improved, averaging c.33,000 Bopd in July and August.

In August, the Kraken partners agreed a compensation settlement from Armada Kraken Pte Ltd, a wholly-owned subisidiary of Bumi Armada Berhad ('Bumi'), in relation to historic issues with the FPSO. Bumi has agreed to pay $15 million to the Kraken partners, which is to be fully settled by 17 December 2018. Within this agreement, the parties agreed requirements for issuance of the Acceptance Certificate, which have now been met. As a result, the Acceptance Certificate has now been issued to Bumi.

Since first production, more than 10 million barrels of oil have been produced, over 7.5 million of which has been produced in 2018, and 20 cargoes offloaded from the FPSO, with 16 of these offloaded in 2018. Cargo pricing continues to be healthy reflecting the quality of Kraken crude.

The DC4 subsea manifold was installed in the second quarter, with installation of the remaining subsea infrastructure for DC4 also now completed. As a result of improved reservoir understanding, the Group has gained approval for developing DC4 with three wells instead of the four originally planned. This reduction in well count has an immaterial impact on oil production rates or recovery and results in approximately a $23 million reduction in capital costs of the drilling programme. Drilling is expected to commence in the coming weeks with first production in early 2019.

There was significant interest in the equity farm-out process conducted earlier this year. Having reviewed the various options available to the Group, the Board approved the financing arrangement as the preferred economic option at this time. The Board will continue to keep a future potential equity farm-down of Kraken under review.

Malaysian operations

Average production in Malaysia in the six months to end June 2018 of 8,225 Boepd was 8.3% lower than 2017, primarily reflecting natural decline at Tanjong Baram. Production efficiency remained high at both Tanjong Baram and PM8/Seligi.

The Group's planned idle well intervention programme on PM8/Seligi commenced in March. At the end of August, six idle wells had been returned to service ahead of schedule and below budget, reflecting the successful execution of simultaneous operations. As seen in prior years, this work programme continues to arrest the field's natural decline.

The Group's 2018 two-well drilling programme was successfully completed and brought into production in July, with aggregate flow rates in line with pre-drill expectations.

Financing

In May, the Group's improved cash generating capacity enabled the early cancellation of $50 million of the Group's credit facility. In August, an additional $25 million was voluntarily cancelled early, with a further reduction of $195 million due in October.

The Group has agreed $175 million of financing with funds managed by Oz Management. The financing, which is at a lower cost than the current interest on EnQuest's existing senior credit facility, is ring-fenced on a 15% interest in the Kraken oil field, the affiliate transfer for which is subject to normal regulatory approval, and will be repaid out of the cash flows associated with the 15% ring-fenced interest over a maximum of five years.

EnQuest is proposing to undertake a Rights Issue for $138 million to facilitate the exercise of its option to acquire the remaining 75% interest in the Magnus field. The Group anticipates the acquisition will bring approximately 60 MMboe of 2P reserves, a material increase to production and approximately $500 million of additional net present value to the Group, after deducting the total consideration of the acquisition (see separate announcement).

2018 outlook reaffirmed

The Group's expectation for material net production growth in 2018 within the guidance range of c.50,000 to 58,000 Boepd remains unchanged. The drilling programmes at Magnus and PM8/Seligi, along with the workover programme at Alma/Galia, have now completed with those wells brought online delivering production improvements in line with the Group's expectations. All other guidance is reaffirmed.

The Group's significant potential within the portfolio, which includes high quality assets such as Magnus, Kraken and PM8/Seligi in Malaysia, ensure EnQuest is well positioned for long-term sustainable growth.

- Ends -

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Presentation to Analysts and Investors

A presentation to analysts and investors will be held at 09:30 today – London time. The presentation and Q&A will also be accessible via an audio webcast, available on the investor relations section of the EnQuest website at www.enquest.com. A conference call facility will also be available at 09:30 on the following numbers:

Conference call details:

UK: +44 (0)330 336 9126

USA: +1 929 477 0448

Confirmation Code: EnQuest

Notes to editors

This announcement has been determined to contain inside information.

ENQUEST

EnQuest is one of the largest UK independent producers in the UK North Sea. EnQuest PLC trades on both the London Stock Exchange and the NASDAQ OMX Stockholm. Its operated assets include Thistle/Deveron, Heather/ Broom, the Dons area, Magnus, the Greater Kittiwake Area, Scolty/Crathes Alma/Galia and Kraken; EnQuest also has an interest in the non-operated Alba producing oil field. At the end of June 2018, EnQuest had interests in 20 UK production licences and was the operator of 18 of these licences.

EnQuest believes that the UKCS represents a significant hydrocarbon basin, which continues to benefit from an extensive installed infrastructure base and skilled labour. EnQuest believes that its assets offer material organic growth opportunities, driven by exploitation of current infrastructure on the UKCS and the development of low risk near field opportunities.

EnQuest is replicating its model in the UKCS by targeting previously underdeveloped assets in a small number of other maturing regions; complementing its operations and utilising its deep skills in the UK North Sea. In which context, EnQuest has interests in Malaysia where its operated assets include the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract.

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

FINANCIAL REVIEW

Financial Overview

All figures quoted are in US Dollars and relate to business performance unless otherwise stated.
Comparative figures for the Statement of Comprehensive Income relate to the period ending 30 June 2017 and the Balance Sheet as at 31 December 2017.

Production on a working interest basis increased by 45.9% to 53,990 Boepd, compared to 37,015 Boepd in the first half of 2017. In the period, Kraken contributed 21,655 Boepd, with Magnus contributing 3,816 Boepd.

Revenue for the six months ending 30 June 2018 was $548.3 million, 86.0% higher than the six month period in 2017 ($294.8 million).

The Group's operating expenditures of $220.6 million were 32.4% higher than 2017 ($166.6 million) reflecting the inclusion of the Kraken and Magnus assets in the Group's production portfolio. Unit operating costs decreased by 9.2% to $22.6/Boe (2017: $24.9/Boe).

EBITDA for the six months ended 30 June 2018 was $311.9 million, up 106.6% compared with the same period in 2017 ($151.0 million).

	Business performance	
	H1 2018 $ million	H1 2017 $ million
Profit from operations before tax and finance income/(costs)	**105.2**	33.6
Depletion and depreciation	**219.3**	96.6
Net foreign exchange (gains)/losses	**(12.6)**	13.7
Realised (gain)/loss on FX derivatives related to capital expenditure	**-**	7.1
EBITDA[(i)]	**311.9**	151.0

(i) Realised (gain)/loss on FX derivatives is recorded within cost of sales. Where the derivative hedges capital expenditure, the (gain)/loss is added back when calculating EBITDA in order to reflect the underlying result of operating activities.

EnQuest's net debt decreased from $1,991.4 million at the end of 2017 to $1,973.4 million at 30 June 2018. This includes $127.6 million of inception to date interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('PIK'), compared to $90.5 million at 31 December 2017. Excluding the PIK capitalised in 2018, net debt reduced by $55.1 million.

	Net debt/(cash)	
	30 June 2018 $ million	31 December 2017 $ million
Multi-currency Revolving Credit Facility[(ii)] ('RCF')	**1,084.3**	1,100.0
Bonds[(i)]	**973.0**	944.9
Tanjong Baram Project Finance Facility	**33.3**	8.5
Mercuria Prepayment Facility	**48.9**	75.5
SVT Working Capital Facility	**17.6**	25.6
Other loans[(i)]	**5.0**	10.0
Cash and cash equivalents	**(188.7)**	(173.1)
Net debt	**1,973.4**	1,991.4

(i) Stated excluding accrued interest and accounting adjustment on adoption of IFRS 9 Financial instruments of $38.1 million, and excluding the net-off of unamortised fees. Includes $118.3 million of PIK (2017: $85.7 million)
(ii) Stated excluding accrued interest and excluding the net-off of unamortised fees. Includes $9.3 million of facility PIK (2017: $4.8 million)

During the six months ended 30 June 2018, the Group decreased the level of committed liquidity under the RCF by $50 million. An additional voluntary prepayment of $25 million was made during August 2018. Scheduled amortisation reductions under the facility are due in October 2018 ($195 million) and April 2019 ($175 million).

UK corporate tax losses at 30 June 2018 increased to $3,139.3 million (2017: $3,121.3 million). In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities for the foreseeable future. The Group paid cash corporate income tax on the Malaysian assets which will continue throughout the life of the Production Sharing Contract.

Income Statement

Production and revenue

Production on a working interest basis increased by 45.9% to 53,990 Boepd, compared to 37,015 Boepd in the first half of 2017. This increase primarily reflects the contribution of Kraken production, which came on stream on 23 June 2017, and the impact of the Group's acquisition of the 25% interest in Magnus on 1 December 2017.

On average, market prices for crude oil in the first half of 2018 were higher than in the same period in 2017. The Group's blended average realised oil price excluding the impacts of hedging was $68.1/bbl for the six months ended 30 June 2018, 31.5% higher than the same period in 2017 ($51.8/bbl). Revenue is predominantly derived from crude oil sales, which for the six months ending 30 June 2018 totalled $608.9 million, 112.3% higher than the comparative period in 2017 ($286.8 million). The increase in revenue reflected higher production and higher market prices for crude oil. Revenue from the sale of condensate and gas in the period was $10.7 million (2017: $0.4 million) reflecting the gas sales derived from Magnus, while tariffs and other income generated $6.0 million (2017: $7.2 million). The Group's commodity hedges and other oil derivatives generated $77.3 million of realised losses (2017: gains of $0.3 million), including losses of $16.0 million of non-cash amortisation of option premiums (2017: gains of $10.5 million).

Cost of sales

	Business performance	
	H1 2018 $ million	H1 2017 $ million
Production costs	**181.4**	135.8
Tariff and transportation expenses	**39.2**	30.8
Operating costs	**220.6**	166.6
Realised loss on FX derivatives related to capital expenditure	**-**	7.1
Change in lifting position and inventory	**(3.3)**	(23.7)
Depletion of oil and gas assets	**216.5**	94.4
Other cost of sales	**13.7**	4.2
Cost of sales	**447.5**	248.6
	$/Boe	$/Boe
Operating cost per barrel		
-Production costs	**18.6**	20.3
-Tariff and transportation expenses	**4.0**	4.6
	22.6	24.9

Cost of sales were $447.5 million for the six months ended 30 June 2018, 80.0% higher than the comparative period in 2017 ($248.6 million). Operating costs increased by $54.0 million, reflecting the increase in production mainly due to Kraken coming on stream on 23 June 2017 and the acquisition of 25% interest in Magnus on 1 December 2017. The Group's average unit operating cost has decreased by 9.2% to $22.6/Boe.

During 2017, change in the lifting position and inventory resulted in a $23.7 million credit to cost of sales, reflecting the unwind of the overlift balance that had accrued at 31 December 2016, primarily on Thistle and GKA, partially offset by the unwind of underlift at Alma Galia and the build-up of an overlift at Scolty Crathes.

Depletion expense of $216.5 million was 129.3% higher than the comparative period in 2017 ($94.4 million), mainly reflecting the contribution to production from Kraken and Magnus in 2018.

Other cost of sales of $13.7 million were higher than the comparative period in 2017 ($4.2 million) and primarily reflects higher production taxes.

General and administrative expenses

General and administrative expenses increased to $7.0 million for the six months ended 30 June 2018 (2017: $1.3 million). The prior year benefitted from historical cost recovery.

Other income and expenses

Net other income of $11.4 million (2017: net expenses of $11.3 million) is primarily comprised of net foreign exchange gains, which relate to the revaluation of Sterling denominated amounts in the balance sheet. In the first half of 2018, the Pound weakened against the Dollar.

Finance costs and income

Finance costs of $122.0 million were 236.0% higher than the comparative period in 2017 ($36.3 million). The charges include $79.6 million of bond and loan interest payable (2017: $65.7 million), $28.5 million of finance charges related to the Kraken finance lease (2017: $nil), $6.6 million unwinding of discount on provisions and liabilities (2017: $6.6 million), together with other facility fees such as commitment fees, and the amortisation of bond fees. During the six months ending 30 June 2017, finance costs were offset by interest capitalisation of $42.3 million in respect of Kraken capital expenditure.

Finance income was a total of $1.4 million for the six months ending 30 June 2018 (2017: $1.4 million).

Taxation

The tax credit for the six months ended 30 June 2018 of $23.0 million (2017: $25.0 million tax credit) is mainly due to Ring Fence Expenditure Supplement ('RFES') on UK activities.

Remeasurements and exceptional items

Exceptional items resulting in a net gain of $34.5 million before tax have been disclosed separately for the six months ended 30 June 2018 (2017: loss of $20.0 million).

Revenue included unrealised gains of $2.5 million in respect of the mark to market movement on the Group's commodity contracts (2017: unrealised gains of $62.3 million). Other items include the fair value adjustment of the discounted purchase option valuation for Magnus and associated infrastructure assets of $41.8 million.

A tax credit of $1.2 million (2017: credit of $25.7 million) has been presented as exceptional, representing the tax impact of the above items, together with the derecognition of $6.9 million of current period tax losses.

Cash flow and liquidity

Net debt at 30 June 2018 amounted to $1,973.4 million, including PIK of $127.6 million, compared with net debt of $1,991.4 million, including PIK of $90.5 million, at 31 December 2017. The Group has remained in compliance with financial covenants under its debt facilities throughout the six month period. The movement in net debt was as follows:

	$ million
Net debt 1 January 2018	**(1,991.4)**
Net cash flows from operating activities	339.1
Cash capital expenditure	(125.8)
Finance lease payments	(77.3)
Vendor loan payments on Magnus financing	(27.2)
Net interest and finance costs paid	(55.2)
Non-cash capitalisation of interest to principal of bond and credit facility ('PIK')	(37.2)
Other movements, primarily net foreign exchange loss on cash and debt	1.6
Net debt 30 June 2018	**(1,973.4)**

The Group's reported net cash flows from operating activities for the six months ended 30 June 2018 were $339.1 million, 125.2% up compared to the same period in 2017 ($150.6 million). The main driver for this increase is the impact of higher production and oil prices on revenue.

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

	H1 2018 $ million	H1 2017 $ million
North Sea	**115.7**	194.3
Malaysia	**8.6**	1.6
Exploration and evaluation	**-**	9.2
Other	**1.5**	-
	125.8	205.1

Cash capital expenditure primarily relates to Kraken activities and Heather/Broom well drilling.

Balance Sheet

The Group's total asset value has decreased by $30.3 million to $5,008.2 million at 30 June 2018 (31 December 2017: $5,038.5 million), mainly due to depletion of oil and gas assets. Net current liabilities have increased by $100.8 million to $478.7 million as at 30 June 2018 (31 December 2017: $377.9 million). This increase is primarily driven by the transfer of Group borrowings into current liabilities as they fall due.

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

Property, plant and equipment has decreased to $3,707.5 million at 30 June 2018 from $3,848.6 million at 31 December 2017. This decrease is explained by depletion and depreciation charges of $219.3 million, non-cash impairments of $6.6 million, a net decrease to PP&E of $9.4 million for changes in estimates for decommissioning and other provisions and offset by capital additions of $94.1 million, set out in the table below:

	H1 2018 $ million
Kraken	41.1
Northern North Sea	24.6
Central North Sea	18.4
Malaysia	10.0
	94.1

Intangible oil and gas assets
Intangible oil and gas assets slightly increased to $52.5 million at 30 June 2018 (31 December 2017: $52.1 million).

Trade and other receivables
Trade and other receivables have increased by $30.4 million to $258.2 million at 30 June 2018 compared to $227.8 million at 31 December 2017. The increase relates mainly to the timing of crude oil sales and higher oil prices, partially offset by other working capital movements.

Cash and net debt
The Group had $188.7 million of cash and cash equivalents and $1,973.4 million of net debt, including PIK of $127.6 million, at 30 June 2018 (31 December 2017: $173.1 million cash and cash equivalents and $1,991.4 million of net debt, including PIK of $90.5 million). Net debt comprises the following liabilities:

- $227.0 million in respect of the Group's £155 million retail bond, including $22.3 million of interest capitalised as an amount payable in kind ('PIK');
- $746.0 million in respect of the Group's high yield bond, including $96.0 million of capitalised PIK;
- $1,084.3 million carrying value of the credit facility, comprising amounts drawn down of $1,075.0 million and capitalised PIK of $9.3 million;
- $33.3 million outstanding under the Tanjong Baram project finance facility;
- $48.9 million relating to the Mercuria Prepayment Facility;
- $17.6 million relating to the SVT Working Capital Facility; and
- $5.0 million outstanding from a trade creditor loan.

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

Provisions
The Group's decommissioning provision decreased by $7.6 million to $631.7 million at 30 June 2018 (31 December 2017: $639.3 million). The movement is driven primarily by changes in estimate of $9.5 million and utilisation of $4.5 million, offset by interest unwinding of $6.4 million.

Income tax
The Group has a UK corporation tax liability at 30 June 2018 of $4.8 million, compared to no liability at 31 December 2017. The income tax liability at 30 June 2018 primarily represents the UK corporation tax payable in relation to Magnus and associated assets acquired from BP in December 2017 and income tax payable in relation to the activity in Malaysia.

Deferred tax
The Group's net deferred tax asset has increased from $335.6 million at 31 December 2017 to $372.2 million at 30 June 2018. The increase is mainly due to the Ring Fence Expenditure Supplement. Total UK tax losses carried forward at the half year amount to $3,139.3 million (31 December 2017: $3,121.3 million).

Trade and other payables
Trade and other payables of $436.6 million at 30 June 2018 decreased from $446.1 million at 31 December 2017. $416.4 million are payable within one year (31 December 2017: $367.3 million) and $20.2 million are payable after more than one year (31 December 2017: $78.8 million). The movement reflects the timing of settlement of previously deferred invoices.

Other financial liabilities
Other financial liabilities increased by $17.3 million to $85.6 million (31 December 2017: $68.3 million). The movement relates to the recognition of the Thistle decommissioning liability of $20.3 million, following the initial $30 million exercise of the option, offset by the mark to market movements on the Group's commodity derivatives.

Financial Risk Management

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

During the six months ended 30 June 2018, commodity derivatives generated a total loss of $74.8 million, with revenue and other operating income including a realised loss of $77.3 million. The losses were mostly in respect of the settlement of swaps 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.

The Group enters into a variety of foreign currency contracts, including Sterling, Euros and Norwegian Kroner. During the six months ended 30 June 2018, these contracts resulted an unrealised loss of $0.4 million recognised in the income statement.

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

Going concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner. Management has also continued to take action to implement cost saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2018 and 2019. At 30 June 2018, the Group had cash and available bank facilities of $256.8 million including $24.9 million of cash from the ring fence working capital facility associated with SVT.

The Group's forecast (the 'Base case'), which underpins this assessment, assumes Kraken production rates are in line with the Group's production guidance. The Base case has been updated at the half year for an oil price assumption of approximately $74 per barrel in second half 2018 and approximately $73 per barrel for 2019 and also assumes, post the rights issue, the execution of the option to secure the remaining 75% of Magnus in January 2019. Specifically the Base case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside case'):

- a 15% discount to the oil price forward curve (2018: around $63 per barrel; 2019: around $62 per barrel);
- a 2.5% increase in operating costs except for fixed costs related to the Kraken FPSO; and
- a 5% decrease in field production.

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

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

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

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Risks and uncertainties

The Group's risks and uncertainties are unchanged from those disclosed in the Group's Annual Report and Accounts 2017.

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

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

- **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 UKCS is, to a significant extent, dependent on the Sullom Voe Terminal.
  - Longer-term production is threatened if low oil prices bring forward decommissioning timelines.
  - Until the Kraken project is at full production, there remains a possibility that production at the field could remain below expectations.

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

- **Subsurface risk and reserves replacement:**
  - Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value.

- **Financial:**
  - Inability to fund financial commitments or maintain adequate cash flow and liquidity and/or reduce costs.
  - The Group's term loan and revolving credit facility contains certain financial covenants (based on the ratio of indebtedness incurred under the term loan and revolving facility to EBITDA, finance charges to EBITDA and a requirement for liquidity testing) and an amortisation schedule. Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's liquidity and/or ability to comply with relevant covenants adhere to the amortisation schedule.
  - Further information is contained in the going concern paragraph in the Financial Review.

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

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

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

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

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

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

Risks and uncertainties

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

- **International business:**
    - 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. HSE, production and project execution); however, there are additional risks that the Group faces including security of staff and assets, political, foreign exchange and currency control, taxation, legal and regulatory, cultural and language barriers and corruption.

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

We urge you to consider carefully the risks above, full details of which are contained in the Group's Annual Report and Accounts 2017

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HALF YEAR GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Notes	2018 Business performance $'000 Unaudited	2018 Re-measurements and exceptional items (note 4) $'000 Unaudited	2018 Reported in period $'000 Unaudited	2017 Business performance $'000 Unaudited	2017 Re-measurements and exceptional items (note 4) $'000 Unaudited	2017 Reported in period $'000 Unaudited
Revenue and other operating income	5	**548,341**	**2,492**	**550,833**	294,766	47,639	342,405
Cost of sales		**(447,517)**	**(817)**	**(448,334)**	(248,624)	14,702	(233,922)
Gross profit/(loss)		**100,824**	**1,675**	**102,499**	46,142	62,341	108,483
Net impairment (charge)/ reversal to oil and gas assets		**-**	**(6,569)**	**(6,569)**	-	(79,685)	(79,685)
General and administration expenses		**(6,990)**	**-**	**(6,990)**	(1,257)	-	(1,257)
Other income		**12,612**	**47,090**	**59,702**	-	-	-
Other expenses		**(1,211)**	**(1,422)**	**(2,633)**	(11,314)	(2,504)	(13,818)
Profit/(loss) from operations before tax and finance income/(costs)		**105,235**	**40,774**	**146,009**	33,571	(19,848)	13,723
Finance costs		**(121,989)**	**(6,274)**	**(128,263)**	(36,337)	(146)	(36,483)
Finance income		**1,383**	**-**	**1,383**	1,434	-	1,434
Profit/(loss) before tax		**(15,371)**	**34,500**	**19,129**	(1,332)	(19,994)	(21,326)
Income tax		**22,963**	**1,230**	**24,193**	24,954	25,692	50,646
Profit/(loss) for the period attributable to owners of the parent		**7,592**	**35,730**	**43,322**	23,622	5,698	29,320
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Fair value gains/(losses) on cash flow hedges				**-**			(2)
Transfers to income statement of cash flow hedges				**(36)**			(2)
Other comprehensive income for the period, net of tax				**(36)**			(4)
Total comprehensive income for the period, attributable to owners of the parent				**43,286**			29,316
Earnings per share	6	**$**		**$**	$		$
Basic		**0.007**		**0.038**	0.021		0.026
Diluted		**0.006**		**0.037**	0.020		0.025

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GROUP BALANCE SHEET
At 30 June 2018

	Notes	***30 June 2018 $'000 Unaudited***	*31 December 2017 $'000*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,707,505**	3,848,622
Goodwill		**189,317**	189,317
Intangible oil and gas assets	8	**52,509**	52,103
Investments		**90**	152
Deferred tax assets		**432,460**	398,263
Other financial assets	12	**10,218**	8,191
		4,392,099	4,496,648
Current assets			
Inventories		**88,304**	78,045
Trade and other receivables		**258,214**	227,754
Current tax receivable		**-**	1,159
Cash and cash equivalents		**188,743**	173,128
Other financial assets	12	**80,877**	61,737
		616,138	541,823
TOTAL ASSETS		**5,008,237**	5,038,471
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	9	**210,402**	210,402
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**-**	36
Share-based payment reserve		**(3,472)**	(5,516)
Retained earnings		**(101,706)**	(106,911)
TOTAL EQUITY		**768,079**	760,866
Non-current liabilities			
Borrowings	10	**718,152**	888,993
Bonds	11	**999,902**	934,351
Obligations under finance leases		**648,953**	679,924
Provisions	14	**670,448**	705,999
Trade and other payables		**20,247**	78,777
Other financial liabilities	12	**27,354**	7,121
Deferred tax liabilities		**60,239**	62,685
		3,145,295	3,357,850
Current liabilities			
Borrowings	10	**470,667**	330,012
Obligations under finance leases		**100,178**	118,009
Provisions	14	**40,004**	43,215
Trade and other payables		**416,414**	367,312
Other financial liabilities	12	**58,253**	61,207
Current tax payable		**9,347**	–
		1,094,863	919,755
TOTAL LIABILITIES		**4,240,158**	4,277,605
TOTAL EQUITY AND LIABILITIES		**5,008,237**	5,038,471

GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Share capital and share premium	*Merger reserve*	*Cash flow hedge reserve*	*Share-based payments reserve*	*Retained earnings*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
Balance at 1 January 2017	**208,639**	**662,855**	**41**	**(6,602)**	**(46,081)**	**818,852**
Profit/(loss) for the period	-	-	-	-	29,320	29,320
Other comprehensive income	-	-	(4)	-	-	(4)
Total comprehensive income for the period	-	-	(4)	-	29,320	29,316
Share-based payment	-	-	-	4,867	-	4,867
Balance at 30 June 2017	**208,639**	**662,855**	**37**	**(1,735)**	**(16,761)**	**853,035**
Balance at 1 January 2018 (as previously reported)	**210,402**	**662,855**	**36**	**(5,516)**	**(106,911)**	**760,866**
Adjustment on adoption of IFRS 9 (see note 18)					(38,117)	(38,117)
Balance at 1 January 2018	**210,402**	**662,855**	**36**	**(5,516)**	**(145,028)**	**722,749**
Profit/(loss) for the period	-	-	-	-	43,322	43,322
Other comprehensive income	-	-	(36)	-	-	(36)
Total comprehensive income for the period	-	-	(36)	-	43,322	43,286
Share-based payment	-	-	-	2,044	-	2,044
Balance at 30 June 2018	**210,402**	**662,855**	**-**	**(3,472)**	**(101,706)**	**768,079**

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GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2018

	Notes	***2018***	*2017*
		$'000	*$'000*
		Unaudited	*Unaudited*
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	17	**318,251**	136,921
Cash (paid)/ received on sale/(purchase) of financial instruments		**-**	18,605
Proceeds from part exercise of Thistle decommissioning option		**30,000**	-
Decommissioning spend		**(7,223)**	(2,687)
Income taxes paid		**(1,909)**	(2,236)
Net cash flows from/(used) operating activities		**339,119**	150,603
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(125,797)**	(195,901)
Purchase of intangible oil and gas assets		**-**	(9,171)
Proceeds from disposal of Ascent loan notes		**-**	3,561
Interest received		**559**	294
Net cash flows (used)/from in investing activities		**(125,238)**	(201,217)
FINANCING ACTIVITIES			
(Repayment of)/proceeds from loan facilities		**(35,145)**	(21,360)
Repayment of vendor loan		**(27,232)**	-
Share issue and debt restructuring costs paid		**-**	(1,356)
Repayment of obligations under finance leases		**(77,300)**	-
Interest paid		**(39,931)**	(33,758)
Other finance costs paid		**(15,778)**	(2,882)
Net cash flows from/(used) financing activities		**(195,386)**	(59,356)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**18,495**	(109,970)
Net foreign exchange on cash and cash equivalents		**(2,712)**	2,532
Cash and cash equivalents at 1 January		**169,668**	168,060
CASH AND CASH EQUIVALENTS AT 30 JUNE		**185,451**	60,622
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**185,451**	60,622
Restricted cash		**3,292**	6,256
Cash and cash equivalents per balance sheet		**188,743**	66,878

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2018

1. Corporate information

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

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

The Group's half year condensed financial statements for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 6 September 2018.

2. Summary of significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The presentation currency of the Group financial information is United States Dollars and all values in the Group financial information are rounded to the nearest thousand ($'000) except where otherwise stated.

The interim report does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

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

Consolidated statutory accounts for the year ended 31 December 2017, on which the auditors gave an unqualified audit report, have been filed with the Registrars of Companies.

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

Accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. Any other standard, interpretation or amendment that was issued but not yet effective has not been adopted by the Group.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 18.

Standards issued but not yet effective

IFRS 16 Leases
IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

The Group has an on-going assessment of the potential impact on its consolidated financial statements. The impact of the adoption of this standard is disclosed in Group's annual financial statements in Note 2 'Summary of significant accounting policies'. The actual impact on the financial statements of applying IFRS 16 in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2018

3. Segment information

Segment information for the six month period is as follows:

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

Period ended 30 June 2017 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
External customers	236,441	58,001	-	294,442	47,963	342,405
Total Group revenue	**236,441**	**58,001**	**-**	**294,442**	**47,963**	**342,405**
Segment profit/(loss)	**(59,330)**	**16,627**	**-**	**(42,703)**	**56,426**	**13,723**

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

Reconciliation of profit:

	Period ended 30 June 2018 $'000	*Period ended 30 June 2017 $'000*
Segment profit/(loss)	**221,269**	(42,703)
Finance costs	**(128,263)**	(36,483)
Finance income	**1,383**	1,434
Gains and losses on oil and foreign exchange derivatives	**(75,260)**	56,426
Profit/(loss) before tax	**19,129**	(21,326)

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2018

4. Re-measurements and exceptional items

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

i. Fair value re-measurements include unrealised mark to market movements on derivative contracts and other financial instruments where the Group does not classify them as effective hedges. It also includes the impact of recycling realised gains and losses (including option premiums) out of 'Re-measurements and exceptional items' and into 'Business performance' profit or loss. Other items include the fair value adjustment of the discounted purchase option valuation for Magnus and associated infrastructure assets of $41.8 million and the fair value adjustment to the contingent consideration on the initial acquisition of Magnus and associated assets of $6.3 million (2017: includes $1.3 million gain in respect of the disposal of the Ascent Resources loan notes).

ii. Impairments and write offs include an impairment of tangible oil and gas assets totalling $6.6 million (30 June 2017: Impairments of $79.6 million were triggered by the decline in the oil price with the assets impaired including Thistle, the Dons, Alma/Galia and Alba).

iii. Other mainly includes the release of a $5.3 million provision associated with an exploration licence relinquished in the period (see note 14). Other income also includes other items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year so as to facilitate comparison with prior periods and to better assess trends in financial performance (2017: includes charge of $4.0 million for the cancellation of a crude marketing contract).

iv. Other tax exceptional items include the tax effect of the derecognition of $6.9 million of current period tax losses (2017: included $6.7 million for the recognition of previously de-recognised tax losses due to the existence of taxable income outside the ring fence, together with $13.9 million for the impact on deferred tax of a revision to the balance of non-qualifying expenditure).

Period ended 30 June 2017 $'000	Fair value re-measurement	Impairments and write offs	Other	Total
Revenue and other operating income	47,639	-	-	47,639
Cost of sales	15,514	-	(812)	14,702
Net impairment (charge)/reversal on oil and gas assets	-	(79,685)	-	(79,685)
Other income	1,652	-	(4,156)	(2,504)
Finance costs	-	-	(146)	(146)
	64,805	**(79,685)**	**(5,114)**	**(19,994)**
Tax on items above	(25,293)	30,053	388	5,148
Other tax exceptional items	-	-	20,544	20,544
	39,512	**(49,632)**	**15,818**	**5,698**

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2018

5. Revenue and other operating income

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

The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in note 18.

	Period ended 30 June 2018 $'000	*Period ended 30 June 2017 $'000*
Revenue from contracts with customers		
Revenue from crude oil sales	**608,898**	286,847
Revenue from gas and condensate sales	**10,720**	420
Tariff revenue	**2,032**	3,268
Rental income	**3,612**	3,453
Total revenue from contracts with customers	**625,262**	293,988
Realised (losses)/gains on oil derivative contracts	**(77,305)**	325
Other operating revenue	**384**	453
Business performance revenue	**548,341**	294,766
Unrealised (losses)/gains on oil derivative contracts*	**2,492**	47,639
Total revenue and other operating income	**550,833**	342,405

** Unrealised gains and losses on oil derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional items in the income statement (see note 4).*

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

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

6. Earnings per share

The calculation of earnings per share is based on the profit after tax and on the weighted average number of Ordinary shares in issue during the period.

Basic and diluted earnings per share are calculated as follows:

	Profit /(loss) after tax Period ended 30 June		Weighted average number of Ordinary shares Period ended 30 June		Earnings per share Period ended 30 June	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	$'000	*$'000*	***million***	*million*	***$***	*$*
Basic	**43,322**	29,320	**1,135.3**	1,126.7	**0.038**	0.026
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**-**	-	**50.3**	44.3	**(0.001)**	(0.001)
Diluted	**43,322**	29,320	**1,185.6**	1,171.0	**0.037**	0.025
Basic (excluding exceptional items)	**7,592**	23,622	**1,135.3**	1,126.7	**0.007**	0.021
Diluted (excluding exceptional items)	**7,592**	23,622	**1,185.6**	1,171.0	**0.006**	0.020

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7. Property, plant and equipment

	Oil and gas assets $'000	*Office furniture, fixtures and fittings $'000*	*Total $'000*
Cost:			
At 1 January 2018	8,070,694	57,716	8,128,410
Additions	93,200	938	94,138
Change in decommissioning provision (see note 14)	(9,359)	-	(9,359)
At 30 June 2018	8,154,535	58,654	8,213,189
Accumulated depletion and impairment:			
At 1 January 2018	4,242,697	37,091	4,279,788
Charge for the period	216,518	2,809	219,327
Impairment charge for the period	6,569	-	6,569
At 30 June 2018	4,465,784	39,900	4,505,684
Net carrying amount:			
At 30 June 2018	**3,688,751**	**18,754**	**3,707,505**
At 31 December 2017	3,827,997	20,625	3,848,622
At 30 June 2017	3,785,246	20,843	3,806,089

8. Intangible oil and gas assets

	Cost $'000	**Accumulated impairment $'000**	**Net carrying amount $'000**
At 1 January 2018	228,026	(175,923)	52,103
Additions	1,043	-	1,043
Write-off of relinquished licences previously impaired	(515)	515	-
Unsuccessful exploration expenditure written off	-	(515)	(515)
Change in decommissioning provision (see note 14)	(106)	-	(106)
Impairment charge for the period	-	(16)	(16)
At 30 June 2018	**228,448**	**(175,939)**	**52,509**

9. Share capital and premium

The share capital of the Company as at 30 June 2018 was $210,402,000 (31 December 2017: $210,402,000) comprising 1,186,084,304 Ordinary shares of £0.05 each (31 December 2017: 1,186,084,304) and share premium of $125,297 (31 December 2017: $125,297).

10. Loans and borrowings

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

	30 June 2018			*31 December 2017*		
	Principal	***Fees***	***Total***	*Principal*	*Fees*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Credit facility[i]	**1,084,322**	**-**	**1,084,322**	1,099,966	–	1,099,966
Crude oil prepayment	**48,889**	**(245)**	**48,644**	75,556	(378)	75,178
SVT Working Capital Facility	**17,593**	**-**	**17,593**	25,622	–	25,622
Tanjong Baram loan	**33,260**	**-**	**33,260**	8,531	(292)	8,239
Trade creditor loan	**5,000**	**-**	**5,000**	10,000	–	10,000
Total loans	**1,189,064**	**(245)**	**1,188,819**	1,219,675	(670)	1,219,005
Due within one year			**470,667**			330,012
Due after more than one year			**718,152**			888,993
Total loans			**1,188,819**			1,219,005

(i) Includes capitalised interest totalling $9.3 million (31 December 2017: $4.8 million)

11. Bonds

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

	30 June 2018			*31 December 2017*		
	Principal	***Fees***	***Total***	*Principal*	*Fees*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
High yield bond[i]	**761,147**	**(7,471)**	**753,676**	720,827	(8,467)	712,360
Retail bond[ii]	**248,041**	**(1,815)**	**246,226**	224,048	(2,057)	221,991
Total bonds due after more than one year	**1,009,188**	**(9,286)**	**999,902**	944,875	(10,524)	934,351

(i) Includes capitalised interest totalling $96.0 million (31 December 2017: $70.8 million) and IFRS 9 adjustments to 30 June 2018 of $15.1 million

(ii) Includes capitalised interest totalling $22.3 million (31 December 2017: $14.9 million) and IFRS 9 adjustments to 30 June 2018 of $21.1 million

12. Other financial assets and financial liabilities

(a) Summary

	30 June 2018		*31 December 2017*	
	Assets	***Liabilities***	*Assets*	*Liabilities*
	$'000	***$'000***	*$'000*	*$'000*
Financial liabilities at fair value through profit or loss:				
Commodity contracts	**-**	**54,228**	-	41,996
Foreign exchange contracts	**-**	**447**	-	-
Financial liabilities at amortised cost:				
Other liabilities	**-**	**3,578**	-	19,211
Financial assets at fair value through OCI:				
Interest rate swap designated as cash flow hedge	**-**	**-**	36	-
Financial assets at amortised cost:				
Other receivables	**80,877**	**-**	61,701	-
Total current	**80,877**	**58,253**	61,737	61,207
Financial liabilities at amortised cost:				
Other liabilities	**-**	**27,354**	-	7,121
Financial assets at amortised cost:				
Other receivables	**10,218**	**-**	8,191	-
Total non-current	**10,218**	**27,354**	8,191	7,121

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The fair value measurements of the financial instruments (excluding Level 1 investments) held by the Group have been derived based on observable market inputs (as characterised within Level 2 of the fair value hierarchy under IFRS 13). There have been no changes to classifications from 31 December 2017.

(b) Commodity contracts

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

During the six months ended 30 June 2018, no commodity derivatives were designated as effective oil hedges.

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

During the six months ended 30 June 2018, losses totalling $74.8 million (30 June 2017: gains of $48.0 million) were recognised in respect of commodity contracts designated as FVTPL. This included losses totalling $77.3 million (30 June 2017: gains of $0.3 million) realised on contracts that matured during the year, and mark to market gains totalling $2.5 million (2016: gains of $47.6 million). Of the realised amounts recognised during the year, $16.0 million (30 June 2017: $10.5 million) was realised in Business performance revenue in respect of the amortisation of premiums paid on sale of these options. The premiums received and paid are amortised into Business performance revenue over the life of the option.

The mark to market of the Group's open contracts as at 30 June 2018 was $nil in respect of fixed price swap contracts (30 June 2017: loss of $29.2 million for 4,150,000 barrels of 2018 production at a weighted average price of $59.1/bbl).

In October 2017, the Group entered into an 18-month collar structure for $80 million (see note 10). The collar includes 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. Of the amounts recognised in respect to commodity contracts, losses totalling $3.1 million were realised on the collar, and open market to market gains of $0.4 million were recognised within unrealised revenue (30 June 2017: $nil).

(c) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, including Sterling, Euros and Norwegian Kroner. During the six months ended 30 June 2018, these contracts resulted an unrealised loss of $0.4 million recognised in the income statement.

(d) Income statement impact

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

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

	Revenue and other operating income		*Cost of sales*		*Finance costs*	
Period ended	***Realised***	***Unrealised***	***Realised***	***Unrealised***	***Realised***	***Unrealised***
30 June 2017	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***
Call options	12,596	(5,204)	-	-	-	-
Commodity swaps	(12,790)	55,888	-	-	-	-
Commodity futures	(2,217)	(218)	-	-	-	-
Purchase and sale of crude oil	2,736	(2,827)	-	-	-	-
Foreign exchange swap contracts	-	-	(400)	433	-	-
Other forward currency contracts	-	-	(6,651)	15,080	-	-
Interest rate swap	-	-	-	-	2	-
	325	**47,639**	**(7,051)**	**15,513**	**2**	**-**

(e) Other receivables and liabilities

	Other receivables *$'000*	Other liabilities *$'000*
At 1 January 2018	69,892	26,332
Change in fair value	40,781	(3,705)
Utilised/(collected) during the period	(20,280)	8,233
Unwinding of discount	702	72
Foreign exchange	-	-
At 30 June 2018	**91,095**	**30,932**
Comprised of:		
Purchase option	64,090	-
BUMI receivable	17,357	-
Thistle decommissioning option	6,420	-
KUFPEC receivable	3,228	-
Decommissioning of Magnus and other interests option	-	24,514
Financial carry	-	3,578
Other	-	2,840
Total	**91,095**	**30,932**
Classified as:		
Current	80,877	3,578
Non-current	10,218	27,354
	91,095	**30,932**

Other receivables

As part of the Magnus and other interests' acquisition, the Group has an option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million. This option lapses in January 2019. In line with IFRS 9, a discounted value of $64.1 million has been attributed to this option (31 December 2017: $22.3 million).

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund $65 million (EnQuest's share being $45.8 million) of a $100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable during 2018 and onwards. Included within other receivables at 30 June 2018 is an amount of $17.4 million representing the discounted value of EnQuest's share of these repayments (31 December 2017: $24.4 million). A total of $6.7 million was collected during the period. Unwinding of discount of $0.7 million is included within finance costs in the six months ended 30 June 2018 (30 June 2017: $1.0 million).

As part of the Magnus and other interests' acquisition, EnQuest also entered into an option to undertake the decommissioning of the Thistle and Deveron fields. Part of the option was exercised in January 2018. The financial asset of $6.4 million (2017: $16.1 million) represents the remaining option value, being the difference in value between the $20 million cash that BP would transfer to EnQuest upon exercise and the net present value of the estimate cash outflow to settle the liability assumed.

As part of the 2012 farm-out to the Kuwait Foreign Petroleum Exploration Company ('KUFPEC') of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of $23.3 million over a 36 month period after Alma/Galia is deemed to be fully operational. $3.9 million was received during the six months ended 30 June 2018 and the remaining receivable, discounted to present value, had a carrying value of $3.2 million at 30 June 2018 (31 December 2017: $7.1 million and $7.1 million respectively). Unwinding of discount of $0.04 million is included within finance expense for the six months ended 30 June 2018 (30 June 2017: $0.1 million).

Other liabilities

As part of the Magnus and other interests' acquisition, EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs. $4.2 million relates to the amount due to BP by reference to 7.5% of BP's actual decommissioning costs on Magnus on an after tax basis (31 December 2017: $4.2 million). As per the above Thistle decommissioning option, part was exercised during the six months ended 30 June 2018, resulting in receipt of cash of $30 million and recognition of the liability of $20.3 million. This relates to the amount due to BP by reference to 3.6% of BP's actual decommissioning costs on Thistle and Deveron on an after tax basis (31 December 2017: $nil).

As part of the agreement to acquire an interest in the PM8/Seligi assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of $3.6 million has been disclosed as a financial liability (31 December 2017: $7.2 million). Unwinding of the discount of $0.1 million is included within finance expense for the six months ended 30 June 2018 (30 June 2017: $0.1 million).

13. Fair value measurement

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

30 June 2018	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Other financial assets at FVTPL				
Quoted equity shares	90	90	-	-
Assets for which fair values are disclosed				
Purchase option	64,090	-	-	64,090
Thistle decommissioning option	6,420	-	-	6,420
Liabilities measured at fair value:				
Derivative financial liabilities at FVTPL				
Commodity derivative contracts(i)	54,228	-	54,228	-
Foreign currency derivative contracts(ii)	447	-	447	-
Other financial liability at FVTPL				
Decommissioning of Magnus and other interests option	24,514	-	-	24,514
Liabilities for which fair values are disclosed				
Interest bearing loans and borrowings	1,189,064	-	-	1,189,064
Obligations under finance leases	749,131	-	-	749,131
Sterling retail bond	213,361	213,361	-	-
High yield bond	701,293	-	701,293	-

31 December 2017	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$'000	$'000	$'000	$'000
Assets measured at fair value:				
Derivative financial assets at FVTPL				
Interest rate swap(ii)	36	-	36	-
Other financial assets at FVTPL				
Quoted equity shares	152	152	-	-
Assets for which fair values are disclosed				
Purchase option	22,300	-	-	22,300
Thistle decommissioning option	16,120	-	-	16,120
Liabilities measured at fair value:				
Derivative financial liabilities at FVTPL				
Commodity derivative contracts(i)	41,996	-	41,996	-
Other financial liability at FVTPL				
Decommissioning of Magnus and other interests option	4,214	-	-	4,214
Liabilities for which fair values are disclosed				
Interest bearing loans and borrowings	1,219,675	-	-	1,219,675
Obligations under finance leases	797,933	-	-	797,933
Sterling retail bond	161,595	161,595	-	-
High yield bond	519,896	-	519,896	-

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

There have been no transfers between Level 1 and Level 2 during the period (2017: no transfers).

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14. Provisions

	Decommissioning provision $'000	Cost recovery provision $'000	Contingent Consideration $'000	Surplus lease provision $'000	Total $'000
At 1 January 2018	**639,251**	**23,911**	**83,166**	**2,886**	**749,214**
Changes in estimates	(9,465)	-	(4,945)	-	(14,410)
Change in fair value	-	-	6,250	-	6,250
Unwinding of discount	6,386	97	20	4	6,507
Utilisation	(4,498)	-	(32,350)	(210)	(37,058)
Foreign exchange	-	-	-	(51)	(51)
At 30 June 2018	**631,674**	**24,008**	**52,141**	**2,629**	**710,452**
Classified as					
Current	10,395	10,329	18,887	393	40,004
Non-current	621,279	13,679	33,254	2,236	670,448
	631,674	**24,008**	**52,141**	**2,629**	**710,452**

Decommissioning provision
During the period, no changes to the underlying cost estimates have occurred, with the changes in estimate relating to the impact of exchange rates on the underlying Sterling and Malaysian Ringgit cost estimates.

Cost recovery provision
As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If on 1 January 2017, KUFPEC's costs to first production had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid until the capital costs to first production have been recovered.

A provision has been made for the expected payments that the Group will make to KUFPEC. In establishing when KUFPEC has recovered its capital cost to first oil, the farm-in agreement requires the use of the higher of the actual oil price, or $90/bbl real, inflated at 2.0% per annum from 2012.

During 2017, the Group entered into discussions with Petronas in relation to the prior period PM8 cost recovery at the PM8 concession. A provision has been made for the expected payments that the Group will make as part of the settlement agreement. The provision is expected to be paid in two parts during 2018 and 2019, as disclosed within current provisions.

Contingent consideration
As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes field development plan ('FDP') approval and 'first oil'. EnQuest paid $3.0 million in November 2015, following FDP approval in October 2015, $9.0 million during 2017 and $8.0 million during the six months ended 30 June 2018.

An exploration licence containing a contingent consideration has been relinquished in the six months ending 30 June 2018, resulting in a release of the respective $5.3 million provision.

On 1 December 2017, the acquisition of the Magnus oil field and other interests was funded through a vendor loan from BP. The loan is repayable solely out of the cash flows of the asset which are achieved above operating cash flows from the Transaction assets and is secured over the interests in the Transaction assets. A fair value adjustment relating to the unwinding of the liability of $6.2 million is included within finance expense for the six months ended 30 June 2018. EnQuest repaid $27.2 million in the six months ended 30 June 2018. The loan accrues interest at a rate of 5.0% per annum on the base consideration.

Surplus lease provision
In June 2015, the Group entered a 20-year lease in respect of the Group's office building in Aberdeen, with part of the building subsequently being sub-let with a rent-free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space.

15. Commitments and contingencies

Commitments

At 30 June 2018, the Group had capital commitments of $41.6 million (31 December 2017: $33.8 million).

On 20 December 2013, the Group entered into a bareboat charter with BUMI for the lease of an FPSO vessel for the Kraken field. In June 2017, the Group's lease of the FPSO commenced. The lease has been assessed as a finance lease, and a $772.0 million lease liability and lease asset were recognised in June 2017. The liability was calculated based on the present value of the minimum lease payments at inception of the lease. The lease liability is carried at $749.1 million as at 30 June 2018 (31 December 2017: $797.9 million), of which $100.2 million is classified as a current liability (31 December 2017: $118.0 million). For the six months ended 30 June 2018, finance lease interest of $28.5 million has been recognised within finance costs.

Contingencies

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

The Group is currently engaged in a dispute with KUFPEC, the Group's field partner in respect of Alma/Galia. KUFPEC has commenced a court action in the High Court of Justice claiming an alleged breach of one of the Group's warranties provided under the Alma/Galia Farm-in Agreement and seeking damages of $91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are on-going and the Directors believe that a considerable period will elapse before a final decision is reached by the courts.

The Directors consider the merits of the claim to be poor and the Group is defending itself vigorously. The Group has not made any provisions in respect of this claim as the Directors believe the claim is unlikely to be successful; and in any event the Directors believe the chances of an outcome exposing the Group to material damages are remote. There can, however, be no assurances that this claim will not ultimately be successful, or that the Group would not otherwise seek to enter into a settlement or compromise in respect of this claim, or that in the event of any such circumstances the Group would not incur costs and expenses in excess of its estimates.

The Group is also currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system pertaining to the Kraken FPSO, in relation to the payment of approximately $15 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. No formal court action has been commenced albeit external counsel for EMAS has issued a "Letter Before Action" in accordance with the Pre-Action Protocol (for Construction and Engineering Disputes) of the Civil Procedure Rules for England and Wales (as at 21 September 2017). The parties are currently in discussions pursuant to the dispute resolution process under the contract.

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16. Cash flow information

Cash generated from operations

	Period ended 30 June 2018 $'000	*Period ended 30 June 2017 $'000*
Profit/(loss) before tax	19,129	(21,326)
Depreciation	2,809	2,258
Depletion	216,518	95,150
Exploration costs impaired/(reversed) and written off	531	(85)
Net impairment charge/(reversal) to oil and gas assets	6,569	79,597
Write down of inventory	(384)	-
Change in purchase option value	(41,790)	-
Gain on disposal of loan notes	-	(1,264)
Impairment (reversal)/charge to investments	62	11
Share-based payment charge	2,044	4,867
Change in surplus lease provision	(210)	-
Change in decommissioning provision	-	5,449
Change in other provisions	1,325	593
Reversal of contingent provision	(5,300)	-
Amortisation of option premiums	16,044	(10,504)
Unrealised (gain)/loss on financial instruments	(2,045)	(63,153)
Unrealised exchange (gain)/loss	(12,612)	13,733
Net finance (income)/expense	126,880	28,425
Operating profit before working capital changes	**329,570**	133,751
(Increase)/decrease in trade and other receivables	(33,888)	14,436
(Increase)/decrease in inventories	(10,601)	1,703
Increase/(decrease) in trade and other payables	33,170	(12,969)
Cash generated from operations	**318,251**	136,921

Changes in liabilities arising from financing activities

Period ended 30 June 2018	***Loans and borrowings $'000***	***Bonds $'000***	***Finance leases $'000***	***Total $'000***
At 1 January 2018 as previously reported	**(1,219,675)**	**(944,875)**	**(797,933)**	**(2,962,483)**
Adjustment on adoption of IFRS 9	**-**	(38,117)	**-**	(38,117)
At 1 January 2018	**(1,219,675)**	**(982,992)**	**(797,933)**	**(3,000,600)**
Cash flows	34,948	-	77,300	112,248
Foreign exchange adjustments	196	5,049	-	5,245
Capitalised PIK	(4,533)	(32,589)	-	(37,122)
Unwind of finance discount	-	-	(28,498)	(28,498)
Other non-cash movements	-	1,344	-	1,344
At 30 June 2018	**(1,189,064)**	**(1,009,188)**	**(749,131)**	**(2,947,383)**

17. Post balance sheet events

The Group has agreed $175 million of financing with funds managed by Oz Management. The financing, which is at a lower cost than the current interest on EnQuest's existing senior credit facility, is ring-fenced on a 15% interest in the Kraken oil field, the affiliate transfer for which is subject to normal regulatory approval, and will be repaid out of the cash flows associated with the 15% ring-fenced interest over a maximum of five years.

EnQuest is proposing to undertake a Rights Issue for $138 million to facilitate the exercise of its option to acquire the remaining 75% interest in the Magnus field. The Group anticipates the acquisition will provide approximately $500m of additional net present value to the Group after deducting the total consideration of $300 million. Funds from the Rights Issue will primarily be used to fund EnQuest's $100 million cash contribution as part of the total consideration and to deliver a two-well 2019 infill drilling programme.

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For the period ended 30 June 2018

18. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

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

IFRS 15 Contracts with Customers – Adopted from 1 January 2018

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The new standard does not lead to any material change in the accounting principles applied by the Group and there have been no adjustments to the amounts recognised in the financial statements on the adoption of IFRS 15.

IFRS 15 requires additional disclosure in relation to those revenues which arise from contracts with customers. Please see note 5.

IFRS 9 Financial Instruments – Adopted from 1 January 2018

The Group has adopted IFRS 9 *Financial Instruments* from 1 January 2018, which resulted in changes in accounting policies and an opening reserve adjustment, as recognised in these financial statements. The adoption of IFRS 9 impacts both the Group and Company financial statements. The new accounting policies are set out below.
In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The total impact on the Group's retained earnings as at 1 January 2018 is $38.1 million.

In October 2017, the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

At the end of 2016 the bonds were refinanced for which the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds was amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $38.1 million was taken through opening reserves and through the amortised value of the bonds ($15.4 million increase to high yield bonds and a $22.7 million increase to retail bonds). The new effective interest rate resulted in decreased finance costs of $1.9 million in the period ended 30 June 2018.

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are recognised in the opening balance sheet on 1 January 2018.

Group Balance Sheet (extract)	**31 December 2017 As originally presented $'000**	**IFRS 9 $'000**	**31 December 2017 Restated $'000**
Non-current liabilities			
Bonds	934,351	38,117	**1,001,868**
Current liabilities			
Bonds	-	-	-
Total	934,351	38,117	**1,001,868**
Equity			
Retained earnings	(106,911)	(38,117)	**(145,028)**
Total	(106,911)	(38,117)	**(145,028)**

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS
For the period ended 30 June 2018

IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

EnQuest PLC

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge, the condensed set of financial statements for the six months ended 30 June 2018 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the half year management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules.

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

By the order of the Board

Amjad Bseisu
Chief Executive

7 September 2018

Independent review report to EnQuest PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises group statement of comprehensive income, group balance sheet, group statement of changes in equity, group cash flow statement and related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

7 September 2018