EnQuest PLC
Annual Report
and Accounts 2019

10 YRS

Our purpose

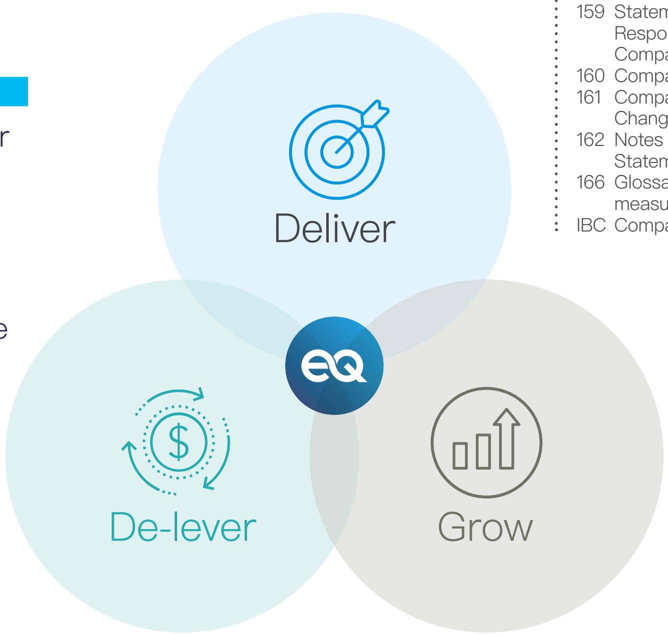
With hydrocarbons expected to remain a key element of the global energy mix for many years, EnQuest is focused on enhancing hydrocarbon recovery and extending the useful lives of assets in a profitable and responsible manner, helping to fulfil energy demand requirements as part of the transition to a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

OUR STRATEGY

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

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

See pages 1, 8 and 10 to 33



STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

10 YRS

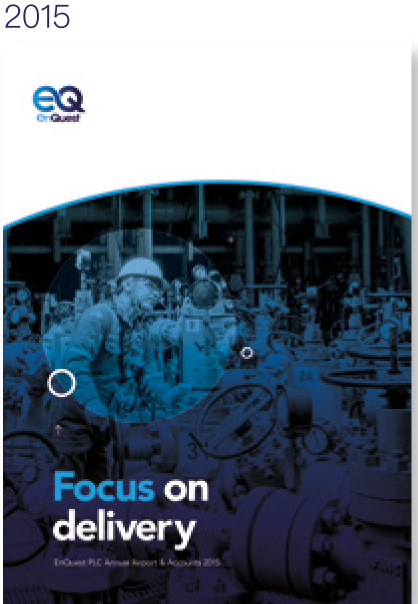
Our ten-year journey...

2010

2011

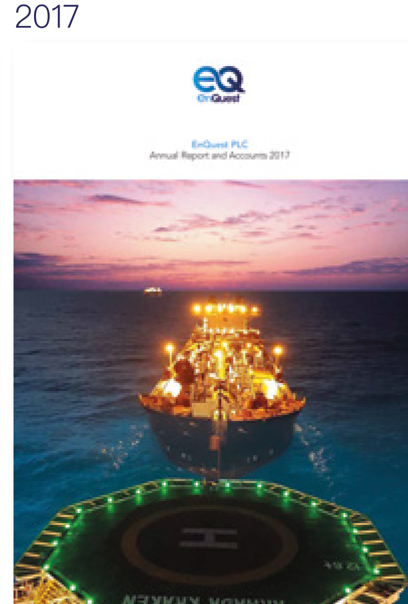
2012

2015



2016

2017

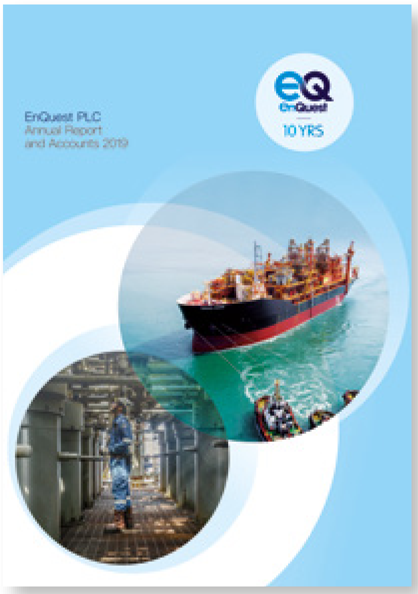


2013

2014

2018

2019



OUR TEN–YEAR JOURNEY...

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

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

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

Highlights

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

2019 PERFORMANCE

Production (Boepd)

68,606
+24%

Unit opex ($/Boe)

21
-10%

EBITDA[1] ($ million)

1,007
+41%

Net 2P reserves (MMboe)

213
-13%

2020 OUTLOOK

Production range (Boepd)

c.57,000 to 63,000

Operating expenditure ($ million)

c.335

Cash capex ($ million)

c.120

See page 13

2019 STATUTORY REPORTING METRICS

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

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

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

EnQuest
10 YRS

Our ten-year journey

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

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

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

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

c.17%

Compound average production growth since 2009

Where next?

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

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

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

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

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

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

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

NORTH SEA OPERATIONS BREAKDOWN

1 onshore terminal

c.221 MMboe of net 2P reserves added

68 wells drilled and completed by EnQuest

7 operated production hubs

c.110 MMboe produced (net)

MALAYSIA OPERATIONS BREAKDOWN

c.33 MMboe of net 2P reserves added

2 production sharing contracts

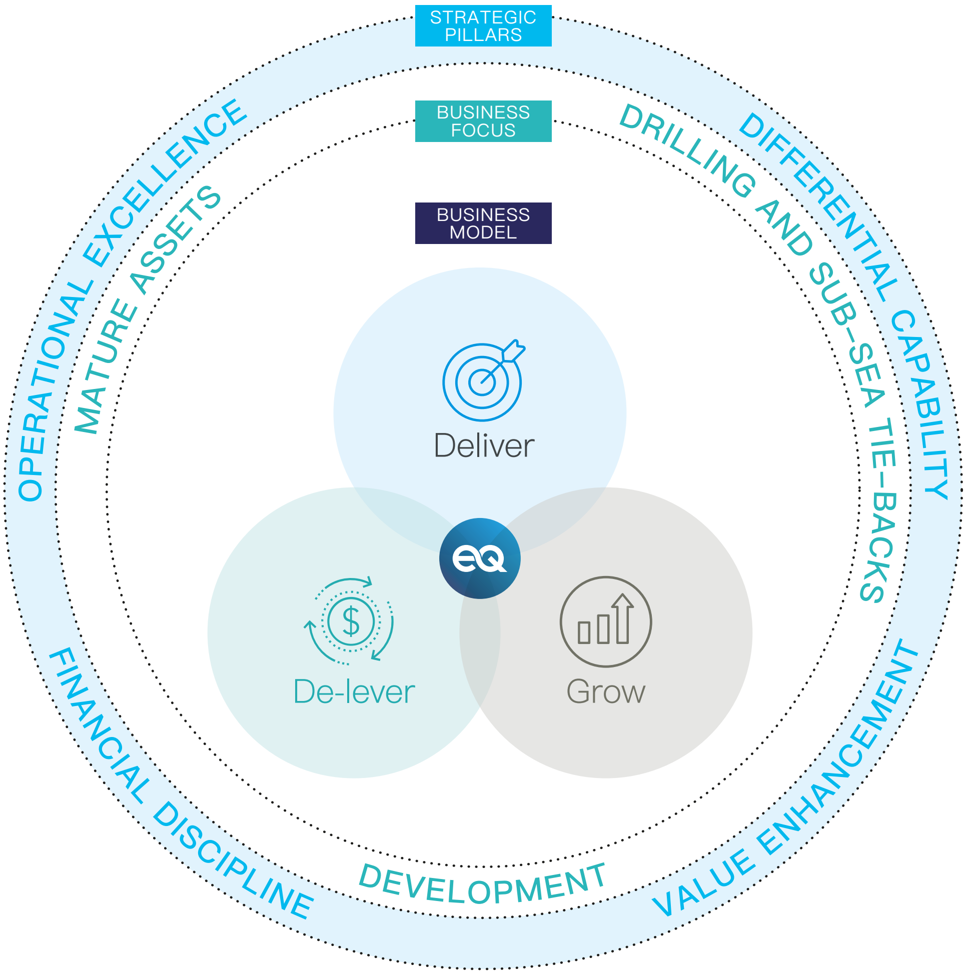
74 idle wells returned to production by EnQuest

13 operated offshore platforms

c.14 MMboe produced (net)

Strategy and business model

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



s.172 Statement

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

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

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

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

Key performance indicators

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

+32.6%

2019	0.57
2018	0.43
2017	0.46

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

Link to strategic pillars

B: Production
Boepd

+23.7%

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

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

Link to strategic pillars

C: Unit opex[2]
$/Boe

-10.4%

2019	20.6
2018	23.0
2017	25.6

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

Link to strategic pillars

D: EBITDA[2]
$ million

+40.5%

2019	1,006.5
2018	716.3
2017	303.6

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

Link to strategic pillars

E: Cash generated by operations
$ million

+26.1%

2019	994.6
2018	788.6
2017	327.0

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

Link to strategic pillars

F: Cash capex[2]
$ million

+7.9%

2019	237.5
2018	220.2
2017	367.6

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

Link to strategic pillars

G: Net debt[2]
$ million

-20.4%

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

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

Link to strategic pillars

H: Net 2P reserves
MMboe

-13.3%

2019	213
2018	245
2017	210

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

Link to strategic pillars

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

Values

These Are What Connect Us

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

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

WORKING COLLABORATIVELY

RESPECT & OPENNESS

SAFE RESULTS

GROWTH & LEARNING

DRIVING A FOCUSED BUSINESS

The next chapter...

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

Q&A

Q

What attracted you to the role of Chairman at EnQuest?

A

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

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

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

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

Q

What was the highlight for you from 2019?

A

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

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

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

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

Q

What has been your focus since you joined?

A

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

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

Q

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

A

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

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

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

Q

What's next for EnQuest?

A

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

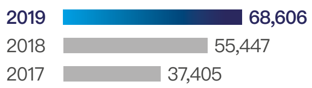
Chief Executive's report

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

Amjad Bseisu
Chief Executive

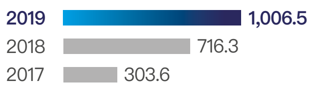
Production
Boepd

+23.7%



EBITDA
$ million

+40.5%

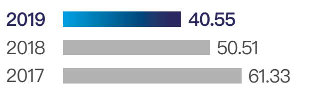


Net 2P reserves
MMboe

-13.3%

Greenhouse gas emissions intensity ratio
kgCO2e/boe[1]

-19.7%



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

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

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

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

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

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

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

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

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

Chief Executive's report continued

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

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

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

UK North Sea operations

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

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

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

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

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

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

Malaysia operations

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

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

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

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

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

2020 performance and outlook

We have been monitoring the evolving situation with regards to the spread of COVID-19 and been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. We have implemented a number of actions to keep our people safe and maintain safe operations, such as offshore travel restrictions, non-essential workforce down-manning and access to specialised evacuation transport for our operated assets.

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

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

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

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

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

Longer-term development

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

Amjad Bseisu
Chief Executive

A strong track record

Operational excellence

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

Safety

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

Production efficiency

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

See pages 22 to 25

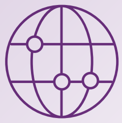
> At EnQuest, we are focused on delivering SAFE Results and have a consistent track record of improving uptime and extending the life of our assets.
>
> **Bob Davenport**
> Managing Director — North Sea

78%[1]

Production efficiency
(2018: 75%[1])

1 Group oil production efficiency, excluding Tanjong Baram

Drilling and sub-sea tie-backs



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

Capabilities explained

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

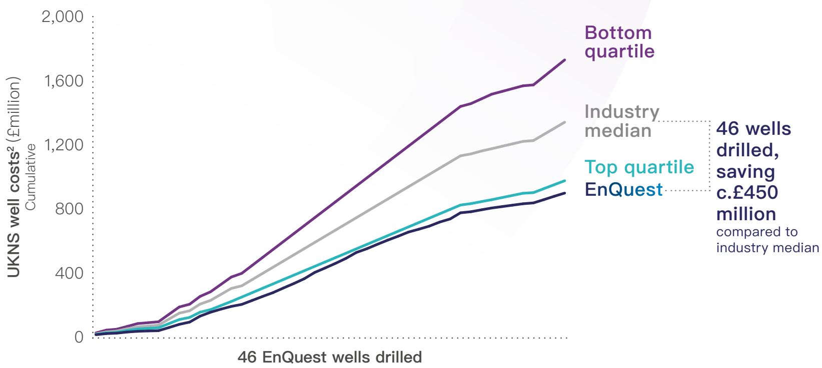
Drilling

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

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

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

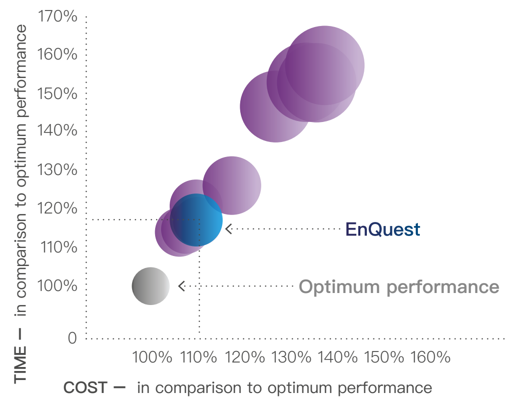
An industry leader in drilling: 46 of 104 wells in UKNS[1]



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

> By being one of the few companies with these differential capabilities, we have a clear and compelling competitive advantage to deliver portfolio value.
>
> **Sandy Fettes**
> Technical Services Director

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



Sub-sea tie-backs

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

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

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

See pages 22 to 25

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

Innovative transaction structures

Value enhancement

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

Magnus acquisition

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

Kraken financing arrangement

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

See pages 29, 31 and 137

> “Using innovative transaction structures, we have been able to grow and develop our business, creating value for our shareholders across our entire portfolio of assets.
>
> **Salman Malik**
> Vice President, Strategy and Corporate Development, International Business Development

Cost control and capital discipline

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

Cost control

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

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

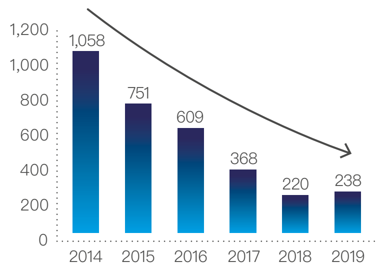
For 2020, the Group is targeting base operating expenditure savings of c.$190 million, which would lower operating costs by c.35% to c.$335 million and unit operating expense to c.$15/Boe. In 2021, the Group is targeting unit operating expenditures of c.$12/Boe.

21

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

> We continue to keep tight control on both our operational and capital expenditures.
>
> **Jonathan Swinney**
> Chief Financial Officer

Capital discipline: investment targeting high-value activities
$ million



Capital discipline

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

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

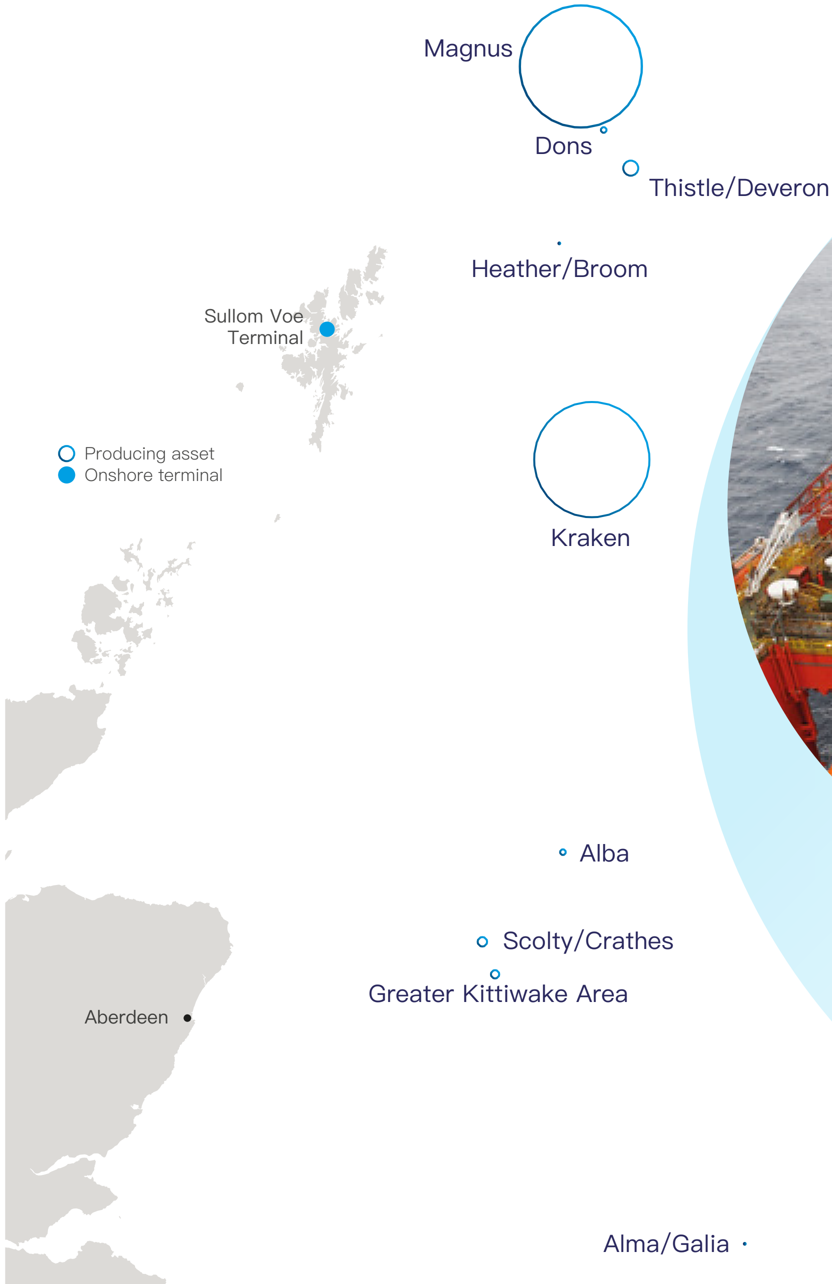
In the medium to long-term, the Group will focus on low-cost, high-return and rapid cost payback infill drilling, primarily at Magnus, Kraken and PM8/Seligi.

See pages 22 to 33

Operating review

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

Bob Davenport
Managing Director — North Sea

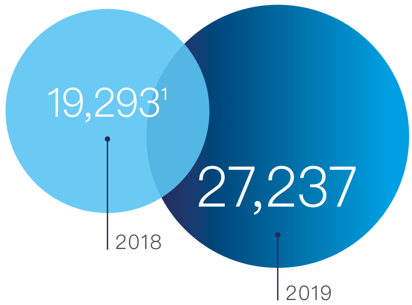


For illustrative purposes only, not to scale

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

Northern North Sea operations

Daily average net production:
Boepd



2019 performance summary

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

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

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

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

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

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

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

2020 performance and outlook

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

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

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

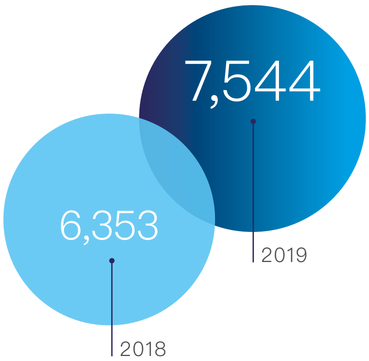
In February, having carefully reviewed all options, EnQuest decided not to restart production from the Heather field and intends to seek the necessary regulatory approvals from the UK Oil & Gas Authority in respect of cessation of production. This decision was taken following extensive analysis, which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

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

Operating review continued

Central North Sea operations

Daily average net production:
Boepd



2019 performance summary

Production in 2019 of 7,544 Boepd was 18.8% higher than in 2018, driven by increased volumes from Scolty/Crathes following the successful completion of the pipeline replacement project in September. This project, which was delivered during the third quarter planned maintenance shutdown, was completed ahead of budget and schedule. Production restarted in early September, initially with production from the Crathes well. After Crathes declined as expected, the well was temporarily shut in to allow production to begin from Scolty. From December, both the Scolty and Crathes wells have been online and performing strongly, supported by optimisation activities.

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

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

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

2020 performance and outlook

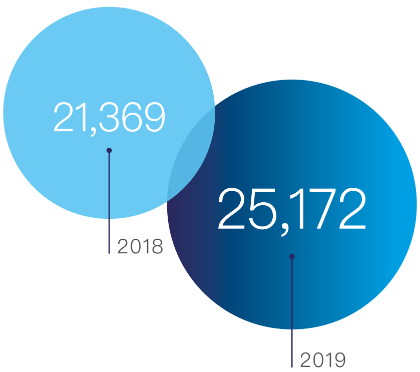
Performance to the end of February has been good. Production continues to decline at Alma/Galia, where the Group's focus remains on production optimisation and cost reduction. Decommissioning is expected to commence following cessation of production, currently forecast to be in the second half of 2020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

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

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

The Kraken development

Daily average net production:
Bopd



2019 performance summary

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

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

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

2020 performance and outlook

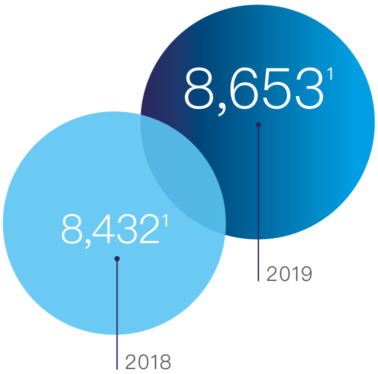
Production and cargo pricing remained strong in the first two months of the year. The Group continues to sell Kraken cargoes directly to the shipping market, as a key component of IMO 2020 compliant low-sulphur fuel oil.

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

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

John Penrose
Managing Director, Malaysia

Daily average net production:
Boepd



Producing asset
Undeveloped offshore licence

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

Malaysia operations

2019 performance summary

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

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

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

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

2020 performance and outlook

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

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

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

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

Reserves and resources

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

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

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

Hydrocarbon assets

EnQuest's asset base as at 31 December 2019

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

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

Financial review

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

Jonathan Swinney
Chief Financial Officer

Financial overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income statement

Revenue

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

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

Financial review continued

Cost of sales[1]

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

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

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

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

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

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

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

Other income and expenses

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

Finance costs

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

Taxation

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

Remeasurement and exceptional items

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

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

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

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

Earnings per share

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

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

Cash flow and liquidity

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

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

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

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

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

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

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

Balance sheet

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

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

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

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

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

Goodwill

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

Intangible oil and gas assets

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

Trade and other receivables

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

Cash and net debt

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

Net debt comprises the following liabilities:

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

Provisions

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

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

Contingent consideration

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

Income tax

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

Financial review continued

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

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

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

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

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

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

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

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

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

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

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

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

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

The quarterly liquidity covenant in the facility (the 'Liquidity Test') requires that the Group has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date which is 1 October 2021. The Liquidity Test assumptions include a price deck of the average forward curve oil price, minus a 10% discount, of 15 consecutive business days starting from approximately in the middle of the previous quarter. The Base case uses $45/bbl for the remainder of 2021, with a longer-term price assumption of $60/bbl.

Under these prices the Group forecasts no breaches in the Liquidity Test. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 15% on Base case prices across all periods, the Group would breach this covenant, prior to any mitigations such as further cost reductions or other funding options. Given the extreme volatility in current oil prices, there is a risk of a potential covenant breach, which would therefore require a covenant waiver to be obtained. The Directors are confident that obtaining waivers from the facility providers would be forthcoming. However, the risk of not obtaining a waiver represents a material uncertainty that may cast doubt upon the Group's ability to continue to apply the going concern basis of accounting.

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

Viability statement

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

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

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

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

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

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

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

Oil price volatility

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

Access to funding

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

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

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

Jonathan Swinney
Chief Financial Officer

Corporate responsibility review

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

Sandy Fettes
Technical Services Director

HSEA
Group Lost Time Incident frequency rate[1]

+32.6%

2019	**0.57**
2018	0.43
2017	0.46

Greenhouse gas emissions intensity ratio[2]

-19.7%

2019	**40.55**
2018	50.51
2017	61.33

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

Environment

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

See pages 36 to 37

Our people

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

See pages 38 to 40

Community

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

See pages 40 to 41

Business conduct

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

See page 40

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

Corporate responsibility review continued

Health, Safety, Environment and Assurance (‘HSEA’)

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

Health and Safety

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

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

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

UK North Sea

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

Malaysia

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

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

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

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

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

People

A fair and rewarding work environment

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

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

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

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

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

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

Engagement

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

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

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

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

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

Diversity and inclusion

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

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

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

Our gender pay gap

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

Putting it into context

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

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

Corporate responsibility review continued

Our gender pay gap results

The information collected was based on the relevant pay period of:

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

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

Our ongoing commitment

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

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

Community

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

North Sea

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate responsibility review continued

Task force on climate-related financial disclosures

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

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

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

Risks and uncertainties

Management of risks and uncertainties

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

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

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

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

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

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

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

As part of its evolution of the Group's Risk Management Framework, the Safety and Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 18 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below). In the first quarter of 2020, as a responsible operator, EnQuest has been monitoring the evolving situation, and consequent emerging risk, with regards to the spread of COVID-19. The Group has been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. While it is difficult to forecast the impact of COVID-19, at the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected. The situation will continue to be monitored.

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

Key business risks

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

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

Set out on the following pages are:

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

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

RISK

HEALTH, SAFETY & ENVIRONMENT ('HSE')

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

Potential impact
Medium (2018 Medium)

Likelihood
Medium (2018 Low)

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

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

Related KPIs — A, B, C, D, E, F, G

APPETITE

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

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

MITIGATION

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

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

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

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

Risks and uncertainties continued

RISK

REPUTATION

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

Potential impact
High (2018 High)

Likelihood
Low (2018 Low)

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

Related KPIs — A, C, D, E, G, H

APPETITE

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

MITIGATION

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

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

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

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

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

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RISK

PRODUCTION

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

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

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

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

Potential impact
High (2018 High)

Likelihood
Low (2018 Low)

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

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

Related KPIs — B, C, D, E, G, H

APPETITE

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

MITIGATION

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

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

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

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

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

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

Risks and uncertainties continued

RISK

OIL AND GAS PRICES

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

Potential impact
High (2018 High)

Likelihood
High (2018 Medium)

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

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

Related KPIs — B, D, E, F, G, H

APPETITE

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

MITIGATION

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

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

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

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

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

RISK

HUMAN RESOURCES

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

Potential impact
Medium (2018 Medium)

Likelihood
High (2018 High)

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

Related KPIs — A, B, C, D, E, F, G

APPETITE

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

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

MITIGATION

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

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

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

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

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

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

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

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RISK

FINANCIAL

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

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

Potential impact
High (2018 High)

Likelihood
High (2018 Medium)

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

Related KPIs — B, C, F, G, H

APPETITE

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

MITIGATION

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

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

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

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

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

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

Risks and uncertainties continued

RISK

FISCAL RISK AND GOVERNMENT TAKE

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

Potential impact
High (2018 High)

Likelihood
Medium (2018 Medium)

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

Related KPIs — E, G

APPETITE

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

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

MITIGATION

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

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

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

RISK

PROJECT EXECUTION AND DELIVERY

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

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Low)

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

Related KPIs — B, D, E, F, G, H

APPETITE

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

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

MITIGATION

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

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

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RISK

PORTFOLIO CONCENTRATION

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

Potential impact
High (2018 High)

Likelihood
High (2018 High)

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

Related KPIs — B, C, D, E

APPETITE

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

MITIGATION

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

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

RISK

JOINT VENTURE PARTNERS

Failure by joint venture parties to fund their obligations.

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

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Medium)

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

Related KPIs — C, D, E, F, G

APPETITE

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

MITIGATION

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

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

Risks and uncertainties continued

RISK

SUBSURFACE RISK AND RESERVES REPLACEMENT

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

Potential impact
High (2018 High)

Likelihood
Medium (2018 Medium)

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

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

Related KPIs — B, C, D, E, F, G, H

APPETITE

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

MITIGATION

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

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

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

RISK

COMPETITION

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

Potential impact
High (2018 High)

Likelihood
High (2018 High)

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

Related KPIs — C, D, E, F, H

APPETITE

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

MITIGATION

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

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

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RISK

INTERNATIONAL BUSINESS

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

Potential impact
Medium (2018 Medium)

Likelihood
Medium (2018 Medium)

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

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

Related KPIs — A, D, E, F, G, H

APPETITE

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

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

MITIGATION

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

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

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

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

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

RISK

IT SECURITY AND RESILIENCE

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

Potential impact
Medium (2018 Medium)

Likelihood
Low (2018 Low)

Related KPIs — A, B

APPETITE

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

MITIGATION

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

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

Stefan Ricketts
Company Secretary

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

Board of Directors

MARTIN HOUSTON
NON–EXECUTIVE CHAIRMAN

Appointed
1 October 2019

Committees
Nomination (Chairman)
Remuneration, Technical

Key strengths and experience
- In–depth knowledge of the energy industry and a wealth of board–level and international business experience

Martin joined BG Group plc in 1983 and enjoyed a 32–year career before retiring as chief operating officer and a member of the board of directors. He holds, and has held, many FTSE and international board or senior advisory positions. Martin's other interests include being a council member of the National Petroleum Council of the United States of America, a member of the advisory board of the Global Energy Policy unit at Columbia University's School of International and Public Affairs, New York and a Fellow of the Geological Society of London.

Principal external appointments
Co–founder and vice–chairman of Tellurian Inc. Non–executive director of CC Energy. In an advisory capacity, he is the global energy chairman of Moelis & Company and vice chairman of Hakluyt North America.

AMJAD BSEISU
CHIEF EXECUTIVE

Appointed
22 February 2010

Committees
Nomination

Key strengths and experience
- Extensive energy industry and leadership experience

Amjad worked for the Atlantic Richfield Company ('ARCO') from 1984 to 1998, eventually becoming president of ARCO Petroleum Ventures. In 1998, he founded and was the chief executive of Petrofac Resources International Limited which merged into Petrofac PLC in 2003. In 2010, Amjad formed EnQuest PLC, having previously been a founding non–executive chairman of Serica Energy plc and a founding partner of Stratic Energy Corporation. Amjad was chairman of Enviromena Ltd., the largest solar power engineering company in the MENA region, until its sale in 2017 and was British Business Ambassador for Energy from 2013 to 2015.

Principal external appointments
Chairman of the independent energy community for the World Economic Forum since 2016. Director of the Amjad and Suha Bseisu Foundation since 2011.

JONATHAN SWINNEY
CHIEF FINANCIAL OFFICER

Appointed
29 March 2010

Committees
None

Key strengths and experience
- Significant capital markets and merger and acquisition transactional experience

Jonathan is a qualified chartered accountant and a member of the Institute of Chartered Accountants of England and Wales. He is also a qualified solicitor and worked in roles with a focus on acquisition finance. Jonathan's previous roles include Credit Suisse and then Lehman Brothers, advising on a wide range of transactions with equity advisory, before joining Petrofac Limited in April 2008 as head of mergers and acquisitions for the Petrofac Group. Jonathan joined EnQuest PLC in 2010 as Chief Financial Officer.

Principal external appointments
None.

HOWARD PAVER
SENIOR INDEPENDENT DIRECTOR

Appointed
1 May 2019[1]

Committees
Audit, Nomination, Remuneration, Technical

Key strengths and experience
- 40 years' global experience in E&P, including 20 years at senior executive level

Howard is a petroleum engineer and began his professional career at Schlumberger before moving to Mobil and then BHP Petroleum, where he was regional president, Europe, Russia, Africa & Middle East, and before becoming president, global exploration & alliance development. He most recently served as SVP, strategy, commercial & business development at Hess, a role he took up in July 2013, having joined the company in 2000 as SVP, north sea/international. Between 2005 and 2013 he held the position of SVP, global new business development.

Principal external appointments
None.

1 31 March 2020, appointed as Senior Independent Director

LAURIE FITCH

NON-EXECUTIVE DIRECTOR

Appointed

8 January 2018

Committees

Remuneration (Chair), Safety and Risk

Key strengths and experience

- Extensive knowledge of capital markets and the utilities and industrial sector

Laurie is currently a partner in the strategic advisory group at PJT Partners, based in London. She spent a significant part of her career as an equity analyst and portfolio manager at TIAA CREF and Artisan Partners, where she invested in the global industrials, utility and infrastructure sectors. Laurie spent four years in the global power and global industrials groups at Morgan Stanley, most recently as co-head of the global industrials group in Europe, prior to joining PJT Partners in 2016.

Principal external appointments

Non-executive director of Energias de Portugal (EDP), SA. Member of the Audit and finance and operations subcommittees of the Tate Board of Trustees. Trustee of The American University in Cairo. Chair of the Board of Advisors of Georgetown University's Centre for Contemporary Arab Studies.

PHILIP HOLLAND

NON-EXECUTIVE DIRECTOR

Appointed

1 August 2015

Committees

Safety and Risk (Chairman), Technical

Key strengths and experience

- Significant experience in managing large-scale oil and gas projects around the globe

Philip joined Bechtel Corporation in 1980 and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell where, in 2009, he became executive vice-president downstream projects in Shell's newly formed projects and technology business. In 2010, he was appointed as project director for Shell's Kashagan phase 2 project in Kazakhstan, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant.

Principal external appointments

Chairman of Velocys plc.

CARL HUGHES

NON-EXECUTIVE DIRECTOR

Appointed

1 January 2017

Committees

Audit (Chairman), Safety and Risk

Key strengths and experience

- Substantial audit and accounting experience in the energy sector

Carl is a Fellow of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Energy Institute. Carl joined Arthur Andersen in 1983 and became a partner in 1993. Throughout his professional career he specialised in the oil and gas, mining and utilities sectors, becoming the head of the UK energy and resources industry practice of Andersen in 1999 and subsequently of Deloitte in 2002. When Carl retired from the partnership of Deloitte in 2015, he was a vice-chairman, senior audit partner and leader of the firm's energy and resources business globally.

Principal external appointments

Non-executive director and chairman of the audit and risk committee of EN+ Group IPJSC. Member of the finance and audit committee of the Energy Institute. Board member of the Audit Committee Chairs' Independent Forum. Member of the General Synod of the Church of England. Deputy chairman of the finance committee of The Archbishops' Council.

JOHN WINTERMAN

NON-EXECUTIVE DIRECTOR

Appointed

7 September 2017

Committees

Technical (Chairman), Audit

Key strengths and experience

- Extensive technical leadership experience in global exploration, business development and asset management

John is a member of the American Association of Petroleum Geologists. John joined Occidental in 1981 as a geologist with the company and had a strong record of exploration success globally with over two billion barrels of oil equivalent discovered in the Philippines, Indonesia, Bangladesh, Malaysia, Russia, the US and Yemen. After a 20+ year technical career John moved into executive roles, including high-level executive leadership positions. John left Occidental in 2013 and since then he has provided strategic advice to international oil and gas companies.

Principal external appointments

Non-executive director of CC Energy.

Executive Committee

BOB DAVENPORT

MANAGING DIRECTOR — NORTH SEA

Key strengths and experience

- Extensive international experience leading large upstream development projects
- Strong operational and engineering experience

Bob joined EnQuest in 2015 and is currently responsible for the Group's UK North Sea business. He has extensive international experience in the upstream, with prior roles including: Managing Director — Malaysia, leading the Group's Malaysia business; operations director — north sea and managing director — Khalda JV at Apache Corporation, where he led the largest oil and gas producer in Egypt's western desert. He has a degree in Mineral Engineering (Petroleum) from the University of Alabama and an MBA from Florida International University.

JOHN PENROSE

MANAGING DIRECTOR — MALAYSIA

Key strengths and experience

- Significant global operational experience
- Senior positions held in chemical and process engineering

John joined EnQuest in 2013 and in late 2017 assumed overall responsibility for EnQuest's Malaysian business. He has extensive international operational experience, with prior roles including: operations manager in the UK, US and Israel for Noble Energy; manager at Genesis Oil and Gas Consultants in Australia; and a variety of operational, field development and project roles across organisations in the UK and Middle East. He has a degree in Chemical and Process Engineering, an MBA and is a Fellow of the Institute of Chemical Engineers.

MARTIN MENTIPLY

BUSINESS DEVELOPMENT DIRECTOR

Key strengths and experience

- Over 20 years' experience in senior technical and commercial roles
- Extensive geographical experience

Martin joined EnQuest in 2016 and is responsible for all business development related activities across the Group. He has over 20 years of broad international oil and gas operator experience. Throughout his career he has gained significant technical and commercial expertise in field development planning, project execution, reservoir management and investment assurance across the value chain from upstream through to LNG. He holds a degree in Chemical Engineering from the University of Edinburgh and a Masters degree in Petroleum Engineering from Imperial College, London.

IMRAN MALIK

VICE PRESIDENT – FINANCE

Key strengths and experience

- Over 25 years' of international oil and gas experience across a range of functions
- Member of the Institute of Chartered Accountants of England and Wales and a Chemical Engineer

Imran joined EnQuest in 2015 as Vice President – Finance, and is responsible for ensuring that the Company has the necessary financial capacity and capabilities in place to deliver on EnQuest's strategy. He has over 25 years' of international oil and gas experience across a range of functions, including group and operational finance, project services, contracts and procurement, and general management responsibilities across the entire value chain. He holds a BEng Honours in Chemical Engineering from University College London, qualified as a chartered accountant with KPMG in 1991 and is a member of the Institute of Chartered Accountants of England and Wales.

SALMAN MALIK

VICE PRESIDENT, STRATEGY AND CORPORATE DEVELOPMENT, INTERNATIONAL BUSINESS DEVELOPMENT

Key strengths and experience

- Investment management, corporate finance and M&A experience across the energy value chain
- Qualified Chartered Financial Advisor ('CFA')

Salman joined EnQuest in 2013 and is responsible for the Group's strategy, corporate finance and M&A. He has extensive experience in acquisitions, post-acquisition management and exits across the energy value chain. He has also held several positions in the investment banking industry. He graduated from the University of Toronto with a degree in Finance and Economics with high distinction and is a CFA charter holder.

STEFAN RICKETTS

COMMERCIAL AND LEGAL DIRECTOR

Key strengths and experience

- Extensive legal experience across a range of geographies
- Senior advisory positions in all phases of development and operations

Stefan joined EnQuest in 2012 and holds the offices of Company Secretary and General Counsel. In addition, his responsibilities extend to the commercial function and the Company's risk management framework. As a qualified solicitor, he has extensive legal experience having held a number of senior positions across the energy chain, including all phases of project development and operations. Having previously been based in Europe, the Middle East and South-East Asia, he brings broad geographical experience to EnQuest.

Chairman's letter

> We have established a Technical Committee and reinforced our commitment to SAFE Results to further support the execution of our strategy.

Martin Houston
Chairman

Dear fellow shareholder

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's Corporate Governance Report, and my first as Chairman of EnQuest.

I would first like to thank my predecessor, Jock Lennox, who retired as Chairman of the Company on 30 September 2019. Jock joined the Company at its inception in 2010 and became Chairman in 2016. As Chairman, he oversaw a number of the Company's major activities, such as the 2016 financial restructuring and the more recent Magnus acquisition. I would like to take the opportunity to thank him for his important contribution to the Company; I know that the Board and our employees share my appreciation.

Since joining the Board in October 2019, I have had the opportunity to meet with a number of our principal shareholders and I thank them for sharing their views on the Company. I have also engaged with employees during a thorough induction programme and I am encouraged by the work of the Employee Forum, established earlier in 2019, which has improved engagement between the workforce and the Board. Following such discussions, I am convinced that EnQuest's track record and capabilities position the Company for future growth as its debt is amortised and it focuses on being a responsible and efficient custodian of maturing hydrocarbon assets.

Over 2019, in addition to those activities outlined in the Strategic Report (pages 1 to 53), the Board focused on the following areas:

Corporate governance and culture

The Board believes that the manner in which it conducts its business is important and it is committed to delivering the highest standards of corporate governance for the benefit of all of its stakeholders. The Board is cognisant of its duties to stakeholders under Section 172 of the Companies Act 2006 and the manner in which the Board has regard to the Company's key stakeholders can be found throughout this Annual Report. In particular, our Section 172 statement can be found on page 4.

EnQuest's Code of Conduct (the 'Code') underpins the governance and ethos of the Company. All personnel are required to be familiar with the Code, which sets out the behaviours that the organisation expects of those who work at and with the Company. The Group's Values complement the behaviours contained within the Code and are a key part of the Group's identity. They guide the workforce as they pursue EnQuest's strategy and delivery of SAFE Results. The Board believes that engaged and committed employees are integral to the delivery of the Company's business plan and, in order to continue to progress in this area, an employee survey was conducted towards the end of 2019. The results of the survey are discussed in more detail on page 38. In addition, the Employee Forum has met four times and has provided valuable feedback to the Board. More detail on the activities and outputs of the Forum can be found in the Corporate Responsibility Review on page 38.

Board composition and succession planning

The Board regularly considers how it operates and whether there is an appropriate composition of members. Rotation of, and succession for, the Directors is kept under review by the Nomination Committee. During 2019, the Committee established a sub-Committee to undertake the Chairman succession process, culminating in my appointment (more on which can be found on page 94), and appointed Howard Paver as Non-Executive Director on 1 May 2019. On 31 March 2020, Howard succeeded Helmut Langanger as Senior Independent Director ('SID') of the Company (which is discussed further on page 94), with Helmut subsequently retiring from the Board on 31 March 2020. In addition, the Committee has continued to review the composition, development of, and succession planning for the Executive Committee.

Since I joined the Company, and as part of the discussions relating to the composition of the Board Committees, the Board has established a Technical Committee. The purpose of this Committee is to provide the Board with additional technical insight when making decisions. As a new Committee, established towards the end of 2019, it does not have a separate report within these governance disclosures; however, the intention is to include one in the Company's 2020 Annual Report. Further activities have included a refresh of the membership of the Board Committees and renaming the Risk Committee as the Safety and Risk Committee, along with an update to its terms of reference, in order to better reflect the Company's commitment to SAFE Results and ensure a continued focus on safety matters.

Further information relating to the operation of the Board and its Committees can be found overleaf. Individual Committee reports are on pages 64 to 70 (Audit), pages 71 to 92 (Remuneration), pages 93 to 95 (Nomination) and pages 96 to 97 (Safety and Risk). EnQuest's governance framework also contains non–Board Committees which provide advice and support to the Chief Executive on the development, implementation and monitoring of the Group's strategy, including an Executive Committee; Health, Safety, Environmental and Assurance ('HSEA') Committee; and Investment Committee.

Corporate responsibility

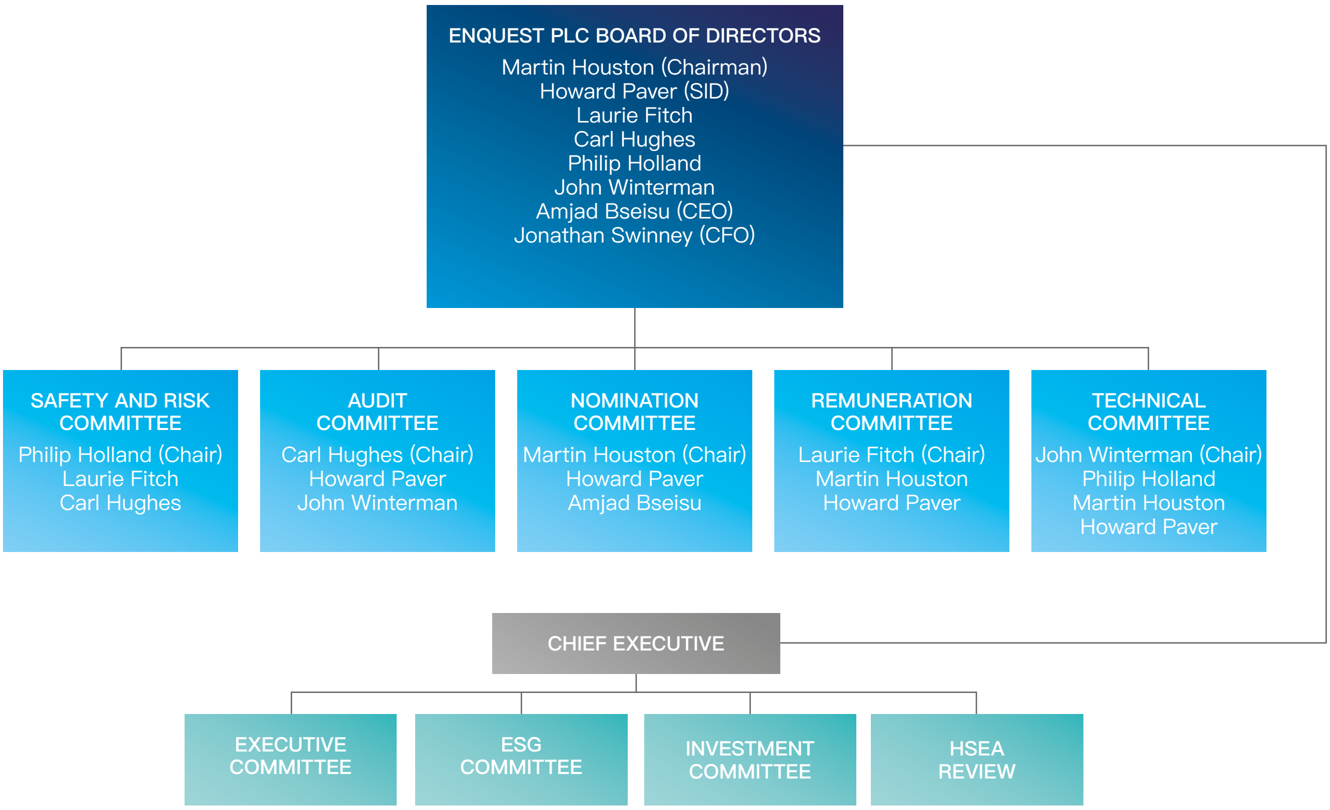
The Company's corporate responsibility is focused on five main areas. These are: Health and Safety, People, Environment, Business Conduct and Community. The Board has approved the Company's overall approach to corporate responsibility, receives regular information on the performance of the Company in these areas, and specifically monitors health and safety and environmental reporting at each Safety and Risk Committee and Board meeting. The Company's HSEA Policy is approved on a biennial basis by the Board, most recently in December 2019, and all incidents, forward–looking indicators and significant HSEA programmes are discussed by the Board. The safety of our employees is paramount, as was demonstrated in our proactive shutdowns at Heather and Thistle, as detailed on page 36. The Company has also established an Environmental, Social and Governance ('ESG') steering committee with oversight of a number of ESG workstreams being progressed during 2020.

Board evaluation

I led an internal Board evaluation in December 2019 and, following discussion with Board members, have identified a number of areas for consideration which are summarised on page 94.

I look forward to leading its Board in the coming years as EnQuest continues to execute its strategy.

Martin Houston
Chairman
8 April 2020



Corporate governance statement

Statement of compliance
The Company complies with the Financial Reporting Council's Governance Code (the 'Code') which was effective for accounting periods beginning on or after 1 January 2019. EnQuest views corporate governance as an essential part of its framework, supporting risk management and its core Values. Detailed below is EnQuest's application of, and compliance with, the Code. In order to avoid duplication, cross references to appropriate sections within the Annual Report are provided.

Key corporate governance activities in 2019	Details
Succession planning and Board composition	Howard Paver, Non-Executive Director, was appointed on 1 May 2019 and as Senior Independent Director on 31 March 2020 Martin Houston, Chairman, was appointed on 1 October 2019
Board Committees	Establishment of Technical Committee Safety and Risk Committee — increased focus on safety Review of membership
Shareholder engagement	Chairman, Senior Independent Director and Remuneration Chair meetings
Employee workforce and employee culture	Establishment of Employee Forum Employee survey

Board leadership and Company purpose
The Board takes seriously its roles in promoting the long-term success of the Company, generating value for shareholders, having regard to the interests of other stakeholders and contributing to wider society. How the Company manages these areas can be found in the Strategic Report, in particular on pages 4 to 5.

The Board is responsible for:
- The Group's overall strategy;
- Review of business plans and trading performance;
- Approval of major capital investment projects;
- Acquisition and divestment opportunities;
- Review of significant financial and operational issues;
- Review and approval of the Company's financial statements;
- Oversight of control and risk management systems (supported by the Audit and Safety and Risk Committees);
- Succession planning and appointments (supported by the Nomination Committee);
- Oversight of employee culture; and
- Health, Safety and Environmental performance.

Board agenda and key activities throughout 2019
The table below sets out matters that the Board discuss at each meeting and the key activities that have taken place throughout this period.

Matters considered at all Board meetings	Key activities for the Board throughout 2019
• HSEA • Key project status and progress • Responses to oil price movements • Strategy • Key transactions • Financial reports and statements • Production • Operational issues and highlights • HR issues and developments • Key legal updates • Assurance and risk management • Investor relations and capital markets update • Liquidity • Employee Forum activities	• 2019 performance and 2020 budget reviews • Review of plans for debt amortisation • Compliance with debt covenants and liquidity • Hedging strategy and policy • HSEA policy • Risk, going concern and long-term viability review • Capital Markets Day • Strategy sessions held in May and October • Growth opportunities • Heather and Thistle proactive safety shutdowns • Sullom Voe Terminal operations • Risk Management Framework • Review of the Group's cyber-security related process and controls • Annual anti-corruption review • Employee culture and Values implementation and progression • Succession planning, including Chairman succession • Establishment of Technical Committee • Continued development of the Safety and Risk Committee • Periodic updates on corporate regulatory changes and reporting requirements

The Board delegates a number of responsibilities to its Audit, Remuneration, Nomination, Technical and Safety and Risk Committees. Membership for each Committee is found on page 62. The Chair of each Committee reports formally to the Board on its proceedings after each meeting and makes recommendations that it deems appropriate to the Board for its consideration and approval. There are formal terms of reference for each Committee, approved by the Board. The terms of reference for each of these Committees set out the scope of authority of the Committee, satisfy the requirements of the Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference are available on the Company's website, www.enquest.com, under Corporate Governance.

Culture
The Board ensures that the culture of the Company is aligned with its purpose, Values and strategy. As highlighted in the Chairman's Statement on page 9, EnQuest's Values embody the ethos of the Company and the Board carefully monitors and promotes a positive culture. Further information, including that of the employee survey, can be found on page 38.

Stakeholder engagement
EnQuest maintained an active and constructive dialogue with its shareholders throughout the year through a planned programme of investor relations activities, including meetings with significant shareholders with regard to the Chairman succession process, Chairman and Remuneration Chair introductions, along with the Company's first Capital Markets Day for a number of years and consultation with institutional shareholders as to performance targets under the Company's Performance Share Plan.

Throughout 2019, a number of equity and debt investor, analyst and broker sales team meetings were held. The Company also delivers presentations alongside its half year and full year results, copies of which are available on the dedicated section of the Company's website, which can be found under 'Investors' at www.enquest.com, as well as ad hoc presentations at investor conferences. The Group's results meetings are followed by investor roadshows with existing and potential new investors. Executive Directors and other members of management routinely hold meetings in a number of leading financial centres and at EnQuest's offices. These meetings, which take place throughout the year, other than during closed periods, are organised directly by the Company, via brokers and in response to incoming investor requests.

EnQuest's Investor Relations team and Company Secretarial department respond to queries from shareholders, debt holders, analysts and other stakeholders, all of whom can register on the website to receive email alerts of relevant Company news. EnQuest's registrar, Link Asset Services, also has a team available to answer shareholder queries in relation to technical and administrative aspects of their holdings, such as shareholding balances.

The Board is routinely kept informed of investor feedback, broker and analyst views and industry news in a paper submitted at each Board meeting by the Company's Investor Relations team and as required on an ad hoc basis.

In relation to further improving workforce engagement with the Board, EnQuest has established an Employee Forum. Board members Laurie Fitch and Philip Holland attend and represent the Board at the Forum meetings. There were four meetings held in 2019 and the output from these meetings and other culture activities, such as the employee survey, is reported on pages 38 of the Corporate Responsibility Review.

The Board is also kept informed of relevant developments relating to other stakeholder groups such as suppliers, regulators, partners and governments, as required by the Executive Directors and/or the appropriate functional management, and considers potential impacts on these groups of principal decisions made during the course of the year (see page 5 for more details).

Workforce concerns
Through tone at the top and the promotion of its Code of Conduct and Values, the Company seeks to set positive, appropriate standards of conduct for its people within an open and dynamic culture. The Company encourages all employees to escalate any concerns and, as part of its whistleblowing procedure, provides an external 'speak-up' reporting line which is available to all employees in the UK, Malaysia and the UAE, and allows for anonymous reporting through an independent third party. Where concerns are raised, these are investigated by the Company's General Counsel and reported to the Chairman of the Audit Committee with follow-up action taken as soon as practicable thereafter. Furthermore, the Company is committed to behaving fairly and ethically in all of its endeavours and has policies which cover anti-bribery, corruption and tax evasion. The overall anti-bribery and corruption programme is reviewed annually by the Board and a corruption risk awareness email is sent out annually by the Chief Executive reminding employees of their obligations and also to prompt them to complete a compulsory online anti-corruption training course. Additional information can be found on page 41 of the Strategic Report and in the Code of Conduct which is available on the Company's website (www.enquest.com).

Conflicts of interest
The Company has established procedures in place through the Articles of Association and the Company's Code of Conduct which identify and, where appropriate, manage conflicts or potential conflicts of interest with the Company's interests. In accordance with the provisions relating to Directors' interests in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. A register of relevant interests of Board members is maintained and the Board is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently and considers the issue of conflicts at the start of every Board meeting. In addition, the Directors are required to obtain Board approval before accepting any further external appointments. Demands on Director time is also taken into account before approval is given.

Division of responsibilities
There is a clear division of responsibilities between the leadership of the Board and the executive leadership of EnQuest. The role of the Chairman and Chief Executive are not exercised by the same individual.

Chairman
The Chairman is responsible for the leadership of the Board, setting the Board agenda and ensuring the overall effective working of the Board. The Chairman holds regular one-to-one and group meetings with the Non-Executive Directors, without the Executive Directors present.

Corporate governance statement continued

Chief Executive
The Chief Executive is accountable and reports to the Board. His role is to develop strategy in consultation with the Board, to execute that strategy following presentation to, and consideration and approval by, the Board and to oversee the operational management of the business.

Senior Independent Director
The Board has recently appointed Howard Paver as Senior Independent Director ('SID'), succeeding Helmut Langanger; more detail regarding this can be found on page 94. Howard is available to shareholders if they have concerns where contact through the normal channels of the Chairman or the Executive Directors has failed to resolve an issue or where such contact is inappropriate. The SID also acts as a sounding board for the Chairman.

Non-Executive Directors
The Non-Executive Directors combine broad business and commercial experience from oil and gas and other industry sectors. They bring independence, external skills and objective judgement, and constructively challenge the actions of executive and senior management. This is critical for providing assurance that the Executive Directors are exercising good judgement in delivery of strategy, risk management and decision-making. They also receive a monthly report on Company performance and updates on major projects, irrespective of a meeting taking place, which allows them to monitor performance regularly. In addition, they hold to account the performance of management and individual Directors against agreed objectives. All Directors of EnQuest have been determined to have sufficient time to meet their responsibilities and this is monitored on a regular basis.

Independence
The Chairman was independent on appointment and the Board considers that all the Non-Executive Directors continue to remain independent and free from any relationship that could affect, or appear to affect, their independent judgement. Information on the skills and experience of the Non-Executive Directors can be found in the Board biographies on pages 54 to 55.

Company Secretary
The Company Secretary is responsible for advising the Board, through the Chairman, on all Board procedures and governance matters. In addition, each Director has access to the advice and services of the Company Secretary. The Company Secretary assists with the ongoing training and development of the Board and is instrumental in facilitating the induction of new Directors. The appointment and removal of the Company Secretary is a Board matter. The Company Secretary supports the Chairman in the provision of accurate and timely information. Board agendas are drawn up by the Company Secretary in conjunction with the Chairman and with agreement from the Chief Executive. All Board papers are published via an online Board portal system which offers a fast, secure and reliable method of distribution.

Directors' attendance at Board and Board Committee meetings
The table below sets out the attendance record of each Director at scheduled Board and Board Committee meetings during 2019. The membership of the Committees, apart from the Audit Committee, was refreshed in October 2019 with eligibility for each meeting reflected accordingly. More details can be found in the individual Committee Reports.

	Board meetings	Audit Committee	Remuneration Committee	Safety and Risk Committee	Nomination Committee	Technical Committee[1]
Meetings considered by the Board	6	3	4	4	7	2
Executive Directors						
Amjad Bseisu	6	–	–	–	7	–
Jonathan Swinney	6	–	–	–	–	–
Non-Executive Directors						
Jock Lennox[2]	4/4	–	–	–	5/5	–
Martin Houston[3]	2/2	–	1/1	–	2/2	2
Helmut Langanger[4]	6	3	4	–	7	–
Howard Paver[5]	4	2/2	2/2	–	1/1	2
Laurie Fitch[6]	6	–	4	4	–	–
Philip Holland[7]	5	–	3/3	3/4	–	1/2
Carl Hughes	6	3	3/3	4	–	–
John Winterman[8]	6	3	3/3	3/3	–	2

Notes:
1 The Technical Committee was established on 15 October 2019
2 Jock Lennox retired from the Board on 30 September 2019
3 Martin Houston was appointed as Chairman of the Board and Chairman of the Nomination Committee on 1 October 2019. Martin was appointed as a member of the Remuneration Committee and member of the Technical Committee on 15 October 2019
4 Helmut Langanger stepped down as Chair of the Remuneration Committee (while remaining a member) on 29 January 2019 and from the Board on 31 March 2020
5 Howard Paver joined the Board on 1 May 2019 and was appointed as a member of the Audit, Nomination and Remuneration Committees. Howard was appointed as a member of the Technical Committee on 15 October 2019 and SID on 31 March 2020
6 Laurie Fitch assumed the role of Chair of the Remuneration Committee on 29 January 2019
7 Philip Holland was appointed as a member of the Technical Committee on 15 October 2019. Philip was unable to attend the Technical Committee and Safety and Risk Committee meetings of the 9 December 2019 and the Board Meeting of 10 December 2019 due to a unforeseen change of date of the December meetings
8 John Winterman stepped down from the Risk Committee and was appointed Chair of the Technical Committee on 15 October 2019

Composition, succession and evaluation

The Nomination Committee

The Nomination Committee leads the process for appointments and regularly reviews the structure, size and composition of the Board. It also considers succession planning for the Executive Committee. At the date of this report there are eight Directors, consisting of two Executive Directors and six Non–Executive Directors (including the Chairman). The work of the Nomination Committee, including information regarding Boardroom diversity, recruitment and the Board annual evaluation process, is on pages 93 to 95.

Audit, risk and internal control

The Audit Committee

The work of the Audit Committee, including the tender and appointment of a new external auditor, is on pages 64 to 70.

The Audit Committee is responsible for the following risk management related tasks:

- Reviewing the effectiveness of the Company's internal controls and risk management systems;
- Reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management; and
- Monitoring and reviewing the effectiveness of the Company's internal audit capability in the context of the Company's overall risk management system.

The Safety and Risk Committee

The Safety and Risk Committee (previously known as the Risk Committee) continues to progress its comprehensive Risk Management Framework and has conducted a robust assessment of the principal risks facing the Group; see pages 44 to 53 of the Strategic Report for further information. The work of the Committee, which also includes monitoring HSEA issues, is on page 96 to 97.

Remuneration

The Remuneration Committee

The Remuneration Committee has assessed the Group's performance for 2019 in determining the appropriate performance related compensation. It has continued its programme of open and transparent shareholder dialogue and assessment of institutional shareholder guidelines as it begins to develop Remuneration Policy revisions ahead of the scheduled update for the Annual General Meeting ('AGM') in 2021. The work of the Remuneration Committee is set out on pages 71 to 92.

2019 Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and Accounts and consider that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable, and provide the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Annual General Meeting

The Company's AGM is attended by the Board and executive and senior management and is open to all EnQuest shareholders to attend. It provides the Board with an important opportunity to meet with shareholders. All of the Directors are expected to attend and will be available to answer questions from shareholders attending the meeting.

Audit committee report

> We have continued to develop the Group's risk management framework and its financial controls environment.

Carl Hughes
Chairman of the Audit Committee

Dear fellow shareholder

2019 has continued to be an active year for the Audit Committee. The development of the Risk Management Framework ('RMF') continues to drive the agenda of the Committee and the business, as well as continuing focus on the Group's financial position and various other factors set out below. This report explains how the Committee has addressed the financial and audit risks in the context of the industry's macro environment and how we have taken such items into account in the review of the going concern and the viability assessment.

Our work in 2019 has focused on the following areas:
- Overseeing the internal audit plan, in particular in relation to the RMF; cyber security; financial control effectiveness; SVT operations; project management controls; decommissioning activity; and system pre–implementation readiness;
- The review and challenge of reserves judgements, going concern and viability and other material issues, judgements and estimates arising in the year and expected in the future;
- Audit tender process and the final recommendation for the appointment of Deloitte; and
- Group tax strategy and the implementation of IR35 reform.

The principal work of the Committee this year included reporting to the Board on the Risk Management Framework and the continuous developments and review procedures established in the year, including in–depth reviews of all high risk items at each meeting. Particular focus was applied to the risk of cyber security, with an internal audit review performed by PricewaterhouseCoopers ('PwC') to address specifically cyber risks across both EnQuest's corporate and operational activities. All actions from the work performed are nearing completion and the Group will continue to develop the cyber security framework, as identified by the internal audit review and challenged by the Committee.

We have continued to review and enhance the financial control environment of the Group to ensure that controls are in place, focused on the relevant risk areas and operating effectively. As a result of further control enhancements during 2019, the Group will be looking to place greater control reliance in those areas with higher automation and system supported processes.

During 2019, a significant activity of the Audit Committee was the external audit tender, undertaken in compliance with the audit tendering and rotation requirements as detailed in the external audit section within this report. The tender process was conducted in accordance with the Group's policy and, subject to approval by shareholders, will result in EnQuest appointing Deloitte LLP ('Deloitte') as the Group's external auditors for the year ended 31 December 2020. Therefore, the year ended 31 December 2019 is the final year for Ernst & Young LLP ('EY'), who have been the external auditors since 2010.

The Committee confirms that the adoption of the new accounting standard IFRS 16 Leases, effective from 1 January 2019, is embedded within the financial statements in this Annual Report and Accounts. Details of the judgements and estimates made in the 2019 financial statements, and how we satisfied ourselves as to their appropriateness, are set out in detail on the following pages, together with further information on how the Committee discharged its responsibilities during the year. The Committee also continues to assess climate risk and related reporting, as detailed in the Group's Risks and Uncertainties on page 44.

In 2019, following the Group's 2018 equity raise and subsequent acquisitions of the remaining interests in the Magnus oil field ('Magnus') and other assets, EnQuest received correspondence from the Financial Reporting Council ('FRC') regarding EnQuest's disclosures within the 2018 Annual Report and Accounts. Working with EY, we responded to demonstrate the Group's rationale for the disclosures and compliance with relevant requirements. For the 2019 Annual Report and Accounts, we have further enhanced disclosures in relation to the contingent consideration that occurred on acquisition, the critical accounting judgements and key sources of estimation uncertainty and, consistent with the approach in our interim report, have restated earnings per share ('EPS') to accommodate applying the bonus factor from the beginning of 2018. The correspondence from the FRC has been helpful and we have addressed their clarifications and the matter is now closed[1].

As discussed within the Corporate Governance Statement, the Audit Committee is pleased to confirm the actions of the Committee were, and continue to be, in compliance with the new UK Corporate Governance Code (the 'Code') and the Committee is satisfied with the formal and transparent policies and procedures in place. Further, we ensured that key judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, are carefully assessed.

1 Note that the FRC's enquiries considered compliance with reporting requirements related to certain specific aspects of the Group's 2018 Annual Report rather than verification of information. The FRC did not benefit from detailed knowledge of the Group's business and does not provide assurance that the Group's 2018 Annual Report was correct in all material respects

The Audit Committee's core responsibilities, which can also be found on the Company's website (www.enquest.com; under Corporate Governance), are to:

- Review the content and integrity of the annual and interim financial statements and advise the Board on whether they are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy;
- Review the appropriateness of the significant accounting policies, judgements and estimates;
- Monitor and review the effectiveness of the system of internal control and the Risk Management Framework;
- Monitor and review the effectiveness of the internal audit function;
- Oversee the relationship with the external auditor, including fees for audit and non-audit services;
- Identify any matters in respect of which it considers that action or improvement is needed and making recommendations to the Board as to the steps to be taken; and
- Monitor and review the process of the assessment of the Group's proven and probable reserves by a recognised Competent Person.

Carl Hughes
Chairman of the Audit Committee
8 April 2020

Committee composition

As required by the Code published in July 2018, the Committee exclusively comprises Non-Executive Directors, biographies of whom are set out on pages 54 and 55. The Board is satisfied that the Chairman of the Committee, previously an energy and resources audit partner of Deloitte, and a Fellow of the Institute of Chartered Accountants in England and Wales, meets the requirement for recent and relevant financial experience.

Membership of the Committee and attendance at the three scheduled meetings held during 2019 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Carl Hughes	1 January 2017	3/3
Helmut Langanger[1]	16 March 2010	3/3
John Winterman	7 September 2017	3/3
Howard Paver[2]	1 May 2019	2/2

Notes:
1 Helmut Langanger stepped down as a member of the Audit Committee on 31 March 2020 when he retired from the Board
2 Howard Paver was appointed as a Non-Executive Director on 1 May 2019, becoming a member of the Audit Committee

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer, Vice President-Finance, the external auditor (EY) and other key finance team members as required. The Chief Executive and the Chairman of the Board also attend the meetings when invited to do so by the Committee. PwC, in its role as internal auditor during 2019, attended the meetings as appropriate. The Chairman of the Committee regularly meets with the external audit partner (with such meetings including the independent review of the going concern and viability assessments) and the internal audit partner to discuss matters relevant to the Company.

The Committee monitors its own effectiveness and that of the functions it supports on a regular basis. Through the review of the terms of reference of the Audit Committee, regular meetings with the internal and external auditor and key management personnel, the Committee has concluded that its core duties in relation to financial reporting, internal controls and risk management systems, whistleblowing and fraud, internal audit, external audit and reporting responsibilities are being performed well.

Audit committee report continued

Meetings during 2019

In line with the Committee's annual schedule, since the Committee last reported to you, three meetings have been held. A summary of the main items discussed in each meeting is set out in the table below:

Agenda item	August 2019	December 2019	March 2020
Key risks, judgements and uncertainties impacting the half-year or year-end financial statements (reports from both management and EY)	√	√	√
Internal audit progress against 2019 plan, including findings since last meeting	√	√	√
Internal audit plan for 2020		√	√
Finance strategy update	√	√	√
Cyber update	√	√	
UK audit and governance environment update in context of CMA, BEIS, Kingman and Brydon reviews	√		√
Review and approve the external (EY) audit plan, including key risks and planned approach		√	
Approve external (EY) audit fees subject to the audit plan	√		
Review the level of non-audit service fees for EY	√	√	√
Evaluate quality, independence and objectivity of EY	√	√	
Formalising tender and appointment of external auditors	√		
Evaluate the viability assessment			√
Appropriateness of going concern assumption	√	√	√
Review of half-year or full-year regulatory press release and results statements	√		√
Corporate governance update	√	√	√
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity			√
Consideration of tax strategy, policy and compliance		√	
Review of process and controls relating to the development of the Group's internal control framework		√	√

Fair, balanced and understandable

A key requirement of our Annual Report and Accounts is for the report to be fair, balanced and understandable. The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet this requirement, with appropriate weight being given to both positive and negative developments in the year.

In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts, including:

- Clear guidance and instructions are provided to all contributors;
- Revisions to regulatory requirements, including the Code, are communicated and monitored;
- A thorough process of review, evaluation and verification of the content of the Annual Report and Accounts is undertaken to ensure accuracy and consistency;
- External advisers, including the external auditors, provide advice to management and the Audit Committee on best practice with regard to the creation of the Annual Report and Accounts; and
- A meeting of the Audit Committee was held in March 2020 to review and approve the draft 2019 Annual Report and Accounts in advance of the final sign-off by the Board.

Financial reporting and significant financial statement reporting issues

The primary role of the Committee in relation to financial reporting is to assess, amongst other things:

- The appropriateness of the accounting policies selected and disclosures made, including whether they comply with International Financial Reporting Standards; and
- Those judgements, estimates and key assumptions that could have a significant impact on the Group's financial performance and position, or on the remuneration of executive and senior management.

We consider these items together with both management and our external auditor, who each provide reports to the Audit Committee in respect of these areas at each Committee meeting. The main areas considered during 2019 are set out below:

Significant financial statement reporting issue	Consideration
Going concern and viability The Group's assessments of the going concern assumption and viability are based on detailed cash flow and covenant forecasts. These are, in turn, underpinned by forecasts and assumptions in respect of: • Production for the next three years, based on the Group's approved 2020 business plan and forecasts, updated with the working assumption not to re–start production at the Heather and Thistle/Deveron fields; • The oil price assumption, based on a forward curve of \$40.0/bbl to the end of the going concern period, \$45.0/bbl for the remainder of 2021 and \$60.0/bbl for 2022 and Q1 2023; • Opex and capex based on the Group's approved 2020 business plan and forecasts, updated for the opex and capex reduction programme being implemented; and • Other funding activities, including certain asset portfolio activities.	The Board regularly reviews the liquidity projections of the Group. The detailed going concern and longer–term viability analysis, including sensitivity analysis and stress testing, along with explanations and justifications for the key assumptions made, were presented at the March 2020 Audit Committee meeting. This analysis was considered and challenged by the Committee, including, but not limited to, the appropriateness of the period covered, planning scenarios and macro–economic assumptions were realistic, stress tests were appropriate and mitigations achievable. The external auditors presented their findings on the conclusions drawn. The disclosures in the Annual Report concerning the viability statement and going concern assumption (see pages 32 to 33) were reviewed and approved for recommendation to the Board.
Potential misstatement of oil and gas reserves The Group has total proved and probable reserves at 31 December 2019 of 212.5 MMboe. The estimation of these reserves is essential to: • The value of the Company; • Assessment of going concern and viability; • Impairment testing; • Decommissioning liability estimates; and • Calculation of depreciation.	At the March 2020 meeting, management presented the Group's 2P reserves, together with the report from Gaffney, Cline & Associates, our reserves auditor. The Committee considered the scope and adequacy of the work performed by Gaffney, Cline & Associates and its independence and objectivity.
Impairment of tangible and intangible assets Significant capital expenditure is incurred on projects and the fair value of these projects is a significant area of judgement. At 31 December 2019, a total of \$177.4 million had been capitalised in respect of oil and gas and other fixed assets. The recovery of these amounts is dependent upon the expected future cash flows from the underlying assets. Impairment testing has been performed resulting in pre–tax non–cash impairment charges of \$640.3 million of tangible oil and gas assets, \$173.1 million of goodwill, and \$25.4 million on intangible oil and gas assets. These impairment tests are underpinned by assumptions regarding: • 2P reserves; • Oil price assumptions (based on an internal view of forward curve prices of \$63.0/bbl (2020), \$65.0/bbl (2021), \$67.0/bbl (2022) and \$70.0/bbl real thereafter); • Life of field opex, capex and abandonment expenditure; and • A discount rate driven by EnQuest's weighted average cost of capital.	At the March 2020 meeting, management presented the key assumptions made in respect of impairment testing and the result thereof to the Committee. The Committee considered and challenged these assumptions, in line with the challenges performed as part of the going concern and viability review. Consideration was also given to EY's view of the work performed by management.
Complexity of Magnus contingent consideration • The contingent consideration arising on the acquisition of the Magnus asset is a complex agreement funded by way of a vendor loan from BP and a future profit share arrangement. Due to the size and unique nature of the arrangement, there is a fair value calculation misstatement risk. The calculations are based on the significant reporting issues of 'potential misstatement of oil and gas reserves' and 'impairment of tangible assets' described above.	At the March meeting, the key assumptions and result of the fair value calculation, along with explanation of movements in the year, were presented to the Committee. Consideration was also given to EY's view of the work performed by management.

Audit committee report continued

Significant financial statement reporting issue	Consideration
Adequacy of the decommissioning provision The Group's decommissioning provision of $711.9 million at 31 December 2019 is based upon a discounted estimate of the future costs and timing of decommissioning of the Group's oil and gas assets. Judgement exists in respect of the estimation of the costs involved, the discount rate assumed, and the timing of decommissioning activities. In 2019, the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each of our operated fields. These estimates were reviewed by operations personnel and adjustments were made where necessary to reflect management's view of the estimates. The estimates in respect of decommissioning the Group's well stock was determined internally by appropriately qualified personnel. Estimates for all operated assets are reviewed annually, with a major review performed every third year. The previous review in 2016 was also performed by Wood Group PSN. The estimate for PM8/Seligi has been reviewed during 2019 and will be reviewed annually. For Alba, our non-operated asset, the provision is based on estimates provided by the operator, adjusted as necessary by our own operations personnel, to ensure consistency in key assumptions with our other North Sea assets.	The Committee reviewed the report by management summarising the key findings and their impact on the provision. Regard was also given to the observations made by EY as to the appropriateness of the estimates made.
Taxation At 31 December 2019, the Group carried deferred tax balances comprising $576.0 million of tax assets (primarily related to previous years' tax losses) and $20.9 million of tax liabilities. The recoverability of the tax losses has been assessed by reference to future profit estimates derived from the Group's impairment testing. Ring-fenced losses totalling $2,903.4 million ($1,102.5 million tax-effected) have been recognised. Mainstream (outside ring-fence) tax losses totalling $297.8 million ($50.6 million tax-effected) have not been recognised due to uncertainty of the creation of non-ring fence profits and therefore uncertainty over the recovery of these losses. Given the complexity of tax legislation, risk exists in respect of some of the Group's tax positions.	The Committee received a report from the Group's Head of Tax, outlining all uncertain tax positions, and evaluated the technical arguments and future profit estimates supporting the position taken by management. The Committee also took into account the views of EY as to the adequacy of our tax balances. An evaluation of the transparency of the Group's tax exposures was undertaken, reviewing the adequacy and appropriateness of tax disclosures presented by management. Regard was also given to the observations made by EY as to the appropriateness of the disclosures made. The Committee was also reviewed and approved the annual update of the Group Tax Strategy (which is available in the corporate responsibility section of the Group's website at www.enquest.com) in December 2019.

Risk management

The Code requires that the Board monitors the Company's risk management and, at least annually, carries out and reports on the results of a review of their effectiveness. The Board has oversight of risk management within EnQuest for the Company's emerging and principal risks. Page 63 provides more detail on how the Board, and its Safety and Risk Committee, have discharged its responsibility in this regard. The Audit Committee Chairman is a member of the Safety and Risk Committee.

Internal control

Responsibility in respect of financial internal control is delegated by the Board to the Audit Committee. The effectiveness of the Group's internal control framework is reviewed continually throughout the year. Key features include:

- Clear delegations of authority to the Board and its sub-committees, and to each level of management;
- Setting of HSEA, operational and financial targets and budgets which are subsequently monitored by management and the Board;
- A comprehensive risk management process with clear definition of risk tolerance and appetite. This includes a review by the Safety and Risk Committee of the effectiveness of management controls and actions which address and mitigate the most significant risks;
- An annual risk-based internal audit programme developed in conjunction with management. Findings are communicated to the Audit Committee and follow-up reviews are conducted where necessary; and
- Further objective feedback provided by the external auditors and other external specialists.

Obtaining assurance on the internal control environment

The Group currently outsources its internal audit function to PwC. The Committee continues to review the internal audit function and during 2019 evaluated the possibility of establishing an internal independent and objective assurance function within EnQuest. The Committee is satisfied that the establishment of an internal function and selected outsourcing of work is appropriate for the Group. In early 2020, the Group appointed an internal audit manager and therefore will be using a combination of outsourced internal audit, particularly for specialist areas such as cyber security, and its own internal audit function.

The Group's system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels defined by the Board. Regular management reporting, which provides a balanced assessment of key risks and controls, is an important component of assurance.

In respect of the work performed by the internal auditors, an internal audit plan is determined each year. When setting the plan, recommendations from management and the internal auditor are considered, and take into account the particular risks impacting the Company, which are reviewed by the Board and Safety and Risk Committee. During 2019, internal audit activities were undertaken for various areas, including reviews of:

- Risk Management Framework;
- The Group's cyber security;
- SVT operations, including the design and operating effectiveness of key controls and process relating to cost recoveries, the annual reconciliation process where costs are allocated to usage of the terminal, the working capital facility and the risk management framework;
- Readiness for decommissioning on Alma and Galia; and
- Ongoing rotational reviews of the effectiveness of the financial control framework in the finance functions in London, Aberdeen, Dubai and Malaysia.

In all cases, the audit conclusions were that the systems and processes were satisfactory and, where potential control enhancements were identified as being required, the Committee ensured that appropriate action was being taken by management to implement the agreed improvements.

After considering the priorities in 2020, we have directed internal audit to focus on, amongst other areas, the review of readiness of decommissioning plans and review of key financial reporting models in addition to the ongoing rotational review of the financial control framework.

We continue to review our information technology general controls, both through internal and external testing. Continuous improvement is ensured through the assessment and implementation of recommended improvements, which for 2020 includes software updates and use of in-built automated system controls.

External audit

One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of EY, which has been the Group's external auditor since 2010 and the current partner, Paul Wallek, has been the signing partner since the year ended 31 December 2015. Each year, the Committee ensures that the scope of the auditor's work is sufficient and that the auditor is remunerated fairly. The process for reviewing EY's performance involves interviewing, each year, key members of the Group who are involved in the audit process to obtain feedback on the quality, efficiency and effectiveness of EY's audit services. Additionally, the Committee members take into account their own view of EY's performance when determining whether or not to recommend reappointment.

The effectiveness of EY was formally evaluated during the Committee's meeting in December 2019, and it was concluded that the Committee continues to be satisfied with EY's performance and the firm's objectivity and independence. The Chairman of the Committee met with the extended audit team to discuss key audit issues during the year.

In its evaluation of EY, the Committee also considered the level of non-audit services provided by the firm during the year, the compliance with EnQuest's policy in respect of the provision of non-audit services by the external auditor (which is set out later in this report), and the safeguards in place to ensure EY's continued independence and objectivity. The services provided in 2019 are services typically provided by a company's auditor, given their knowledge and experience of the Company and in line with the EnQuest non-audit services policy. The ratio of non-audit fees to audit fees over the last three years was 15%, which remains below the 70% cap outlined in the Company's policy in respect of non-audit services provided by the external auditor.

In respect of audit tendering and rotation, the Committee has adopted a policy which complies with the EU Audit Regulation and Competition and Markets Authority 'The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities)' Order 2014. This policy requires an annual assessment of whether an audit tender is required on the basis of quality or independence, a mandatory tender after ten years, and rotation of audit firms at least every 20 years. As a result, a formal audit tender process was conducted resulting in EnQuest appointing Deloitte as the Group's external auditors, with James Leigh being appointed as the signing partner. Deloitte will audit the Company's financial statements beginning 1 January 2020, subject to shareholder approval at the 2020 AGM.

The Committee commenced monitoring the transition of statutory auditor, which included inviting Deloitte to attend Audit Committee meetings in December 2019 and March 2020.

Audit committee report continued

Use of external auditors for non–audit services

The Audit Committee and Board believe that the external auditor's independence and objectivity can potentially be affected by the level of non–audit services to EnQuest. However, the Committee acknowledges that certain work of a non–audit nature is best undertaken by the external auditor. To ensure objectivity and independence, and to reflect best practice in this area, the Company's policy on non–audit services reflects the EU Regulations.

As part of the Committee's process in respect of the provision of non–audit services, the external auditor provides the Committee with information about its policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and employees. EY has reconfirmed its independence and objectivity. The Audit Committee has also reviewed the independence of Deloitte, reviewing the professional services currently being provided to EnQuest by Deloitte. Deloitte has confirmed its independence and objectivity as part of the tender.

The key features of the non–audit services policy, the full version of which is available on our website (www.enquest.com; under Corporate governance), are as follows:

- A pre–defined list of prohibited services has been established;
- A schedule of services where the Group may engage the external auditor has been established and agreed by the Committee;
- Any non–audit project work which could impair the objectivity or independence of the external auditor may not be awarded to the external auditor; and
- Fees for permissible non–audit services provided by the external auditor for three consecutive years are to be capped at no more than 70% of the average Group audit fee for the preceding three years.

The Committee continues to review non–audit services and, in light of the revised FRC Ethical Standards, reviews the scope of work to ensure its close link to audit services.

Delegated authority by the Audit Committee for the approval of non–audit services by the external auditor is as follows:

Authoriser	Value of services per non–audit project
Chief Financial Officer	Up to £50,000
Chairman of the Audit Committee	Up to £100,000
Audit Committee	Above £100,000

Directors' remuneration report

> The Committee's focus remains ensuring reward for Executive Directors, the Executive Committee and senior managers incentivises the delivery of EnQuest's strategy and performance goals.

Laurie Fitch
Chair of the Remuneration Committee

Dear fellow shareholder

On behalf of the Board and my fellow members of the Remuneration Committee, I am pleased to present EnQuest's Directors' Remuneration Report ('DRR') for the financial year ended 31 December 2019.

Overview

My year as Committee Chair has been active. The Committee's work has included assessing the appropriateness of the Company's total compensation package available for Executive Directors and ensuring it remains aligned with our agreed remuneration principles, assessing and implementing appropriate measures to ensure continued compliance with the Corporate Governance Code (the 'Code'), and approving the level of reward commensurate with the Company's performance in 2019. I have also met with a number of our major shareholders as we begin to develop potential Remuneration Policy (the 'Policy') changes in readiness for the next Policy revision due in 2021.

2019 is the first year of additional reporting disclosure required under the revisions to the Code published in 2018. In the 2018 DRR, we included the enhanced pay scenario illustrations to provide an indication of the maximum remuneration assuming a 50% share price appreciation. This year, we have included the required reporting of the Chief Executive pay ratio for the year ending 31 December 2019, which we have chosen to calculate in line with single figure methodology, also known as 'Option A'.

We have continued to undertake benchmarking analysis of all key reward components for Executive Directors and Executive Committee members ahead of the annual salary review. This benchmarking exercise, which was thoroughly debated in the boardroom and independently validated by our remuneration advisers, Mercer Kepler, satisfied the Committee that the shape and level of our remuneration practices are appropriately positioned against those of comparator companies of similar size and scope. As such, the Committee is comfortable our existing Policy remains fit for purpose for the coming year. Although the Policy is not subject to shareholder vote this year, we have reprinted the existing Policy on pages 74 to 76 for ease of reference.

As part of our preparation for the scheduled Policy revision in 2021, I consulted a number of our major shareholders. These conversations were constructive and the Committee will continue to engage shareholders during 2020 on a range of potential amendments to the Policy, prior to seeking shareholder approval at the 2021 Annual General Meeting ('AGM'). Our aim in reviewing the Policy is to continue to ensure it reflects both developments in EnQuest as a maturing business and the ongoing need to retain and attract high-calibre people in a challenging commercial environment. Within any Policy revision, we will also assure compliance with the Code and take on board the guidelines issued by investors and leading proxy agencies. As such, and reflecting feedback from our shareholders, the Committee anticipates reshaping the Performance Share Plan ('PSP') framework to better align it and keep pace with shareholder interests. Indeed, the Committee has used the discretion available within the existing approved Policy to make a small adjustment to the weightings of the four performance conditions associated with the 2020 PSP award. These changes, informed by discussions with our major shareholders, include an increased weighting attached to Total Shareholder Return ('TSR') and a smaller weighting to the production and reserves growth measures. Details of these changes can be found on page 91 of this report. In accordance with our drive for open and transparent engagement with our shareholders, we have written to major shareholders to advise them of this initial change.

Within the Strategic Report, the Company has set out its intent to positively contribute towards the objective under the UK's current legislation to achieve 'net-zero' emissions by 2050. The development of plans that will deliver a pathway to support the Group's contribution to this national target forms part of management's 2020 performance targets. The 2020 Company Performance Contract ('CPC') also incorporates targets related to the Group's culture and Values and improving workforce diversity.

We are also putting forward four resolutions to the AGM this year to renew EnQuest's share plans for a further ten years. The plans relate to the EnQuest PLC 2020 Performance Share Plan, the EnQuest 2020 Restricted Share Plan, the EnQuest 2020 Deferred Bonus Share Plan and the EnQuest 2020 Sharesave Plan. The current ten-year lifecycle of the Company's discretionary plans expired on 18 March 2020 and, as the current Sharesave plan would expire in 2022, the Committee thought it appropriate to seek re-approval from shareholders for all plans at the same time. Summaries of the new plans are included as appendices to the AGM notice which is being sent to shareholders at the same time as this report. Substantial changes to the plans' rules were agreed at the 2017 AGM and the new plans are an update of these.

Directors' remuneration report continued

The DRR has three sections:
1. This annual summary statement;
2. The Policy which is included for reference; and
3. The Annual Report on Remuneration of the Executive Directors and Non-Executive Directors for 2019 which will be subject to an advisory shareholder vote at the 2020 AGM.

Shareholder consultation
Our programme of open and transparent shareholder dialogue continues to provide a valuable contribution to the Committee's work in developing potential revisions to our Policy. We are aware of new institutional shareholder guidelines on executive remuneration, specifically regarding executive pensions' alignment with the wider workforce. We understand the importance of this for our shareholders and will align the pension of future Executive Directors at the time of appointment. Whilst the current level of pension benefit for our Chief Executive ('CEO') is aligned to the wider employee base pension contribution at c.10% of salary, our Chief Financial Officer ('CFO') currently receives a pension benefit 5% higher than this. As such, we will begin a phased realignment of the CFO's pension benefit over the next two years starting in 2020.

Guidelines for incentive plans, which include the ratio of target to maximum bonus, the balance between financial and personal objectives and the number of target measures outlined in executive long-term bonus schemes, will be addressed in the forthcoming Policy review and presented for shareholder approval at the 2021 AGM.

We are aware that shareholders are also seeking to ensure that companies provide greater transparency around the circumstances which will be subject to malus or clawback. Again, as part of the Policy review in 2021, we will review our malus and clawback provisions and identify opportunities for change and any extension to the list of circumstances that would trigger the provisions, where appropriate.

UK Corporate Governance Code 2018
The Committee understands the requirements published in the revised Code in July 2018 which came into effect for financial accounting years beginning on or after 1 January 2019. In the Policy revision approved at the 2018 AGM, the Company implemented an additional two-year holding period post the three-year vesting cycle for PSP awards made to Executive Directors vesting from 2022 onwards.

The Chief Executive pay ratio for 2019 was 14:1. Details of the calculation are explained on page 89 in this report. In line with the Code, we will begin to build and track changes in the CEO pay ratio on an annual basis. The Committee considers the ratio to be reasonable considering our relative position against our benchmark peers and reflecting business performance during 2019.

The Committee is also aware of the new Code requirement to develop a formal policy for post-employment shareholdings and will present proposals as part of the next Policy review due in 2021.

The Committee believes that the current remuneration structure is clear, simple, and appropriately aligned with the Company's strategy, risk appetite and culture, and that incentives are appropriately capped. It is intended that the forthcoming Policy review will continue to focus on similar objectives.

Performance and remuneration outcomes for 2019
The Company performed well across the entire range of financial and operational measures included in the CPC, with all results above target and many exceeding the stretch targets set. A number of employee engagement initiatives were introduced during the year in accordance with the Group's Values, and these, combined with the results of an employee survey, underpin the approved result in relation to the culture and Values measure.

However, the Group's Health, Safety, Environment and Assurance ('HSEA') performance during the year was mixed. Good progress was made with leading metrics and a number of assets had strong occupational safety performance, but there was an increase in the number of minor injuries in the UK and a high-potential incident at Heather. As a result, the Committee utilised its discretion and applied a lower-than-target HSEA multiplier to the Company overall performance outturn, which reduced the bonus award for Executive Directors and Executive Committee members for 2019. Performance against the CPC and associated bonus awards for the CEO and CFO are set out on pages 82 and 83 of this report and reflect the HSEA downward adjustment.

2019 annual bonus — payable in 2020
The Executive Directors' annual bonus awards are based on a combination of financial and operational results and the achievement of key accountability objectives. The bonus attainment for Amjad Bseisu (CEO) was based solely on achievement against the CPC. In the case of Jonathan Swinney (CFO), 50% of his bonus award was based on the CPC and 50% on achievement against performance measures set out in his individual performance contract. The 2019 target and maximum bonus potential for Executive Directors were 75% and 125% of salary, respectively. A 2019 bonus award of 101.9% of base salary (81.5% of maximum) has been made for Amjad Bseisu and 108.5% of base salary (86.8% of maximum) for Jonathan Swinney. The Committee believes that these levels of award are appropriate given the improved financial and operational performance during the year and the application of an appropriate downward adjustment in relation to the application of an override to reflect the Group's HSEA performance. Full details of how these awards were determined are included on pages 82 to 85 of this report. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares with a holding period of two years, in line with the Policy.

Performance Share Plan

The 2017 PSP award made to Executive Directors will vest on 12 September 2020. The three-year performance period ended on 31 December 2019 and the award will vest at 49.6% of the original award. The Committee agreed it was appropriate that the performance calculation included production and reserves growth arising out of the non-equity funded element of the 2018 acquisition of the additional 75.0% interest in Magnus. No benefit was included in relation to the portion of the acquisition funded from the net rights issue proceeds. Taking these adjustments into account, the production growth target vested at 21.6% out of 30.0%, but the reserves growth target, which had a weighting of 10.0%, was not achieved. Total Shareholder Return ('TSR') vested at 10.9% out of 30.0%, while the net debt target, with a weighting of 30.0%, vested at 17.0%. Full details of actual performance against the four performance conditions of TSR, production growth, reserves growth and net debt targets are on pages 85 and 86 of this report.

A PSP award of 250% of salary for both Amjad Bseisu and Jonathan Swinney was made on 24 April 2019. The performance conditions associated with this award will be measured over the three-year performance period until 31 December 2021, with the award vesting in April 2022.

As part of the Policy review to be put to the AGM for approval in 2021, the Committee intends to substantially reshape the PSP performance targets to better reflect the Company's business operating model. This could encompass the removal of production and reserves growth targets altogether, leaving relative TSR and net debt reduction as the performance targets. Alternatively, the Committee may decide to shift performance targets entirely to TSR measures, in line with peer practice, as the best framework for capturing value and in alignment with shareholder interests.

For 2020, the Committee has determined to retain the four PSP performance targets but has used its discretion to re-weight the targets, with TSR increasing from 30% to 50% and production growth and reserves growth being re-weighted downwards to 15% and 5% respectively. Reduction in net debt will retain its 30% weighting. Shareholders have been advised of the proposed change.

Executive Director shareholding

Executive Directors are expected to build up and hold a shareholding of 200% of salary. Both Amjad Bseisu and Jonathan Swinney comfortably meet this requirement.

Executive Director remuneration in 2020

2020 base salaries

For 2020, the Committee has awarded a salary increase of 2.0% to Amjad Bseisu and 2.7% to Jonathan Swinney effective from 1 January 2020. These are in line with the typical increases of 1.5% to 3.0% awarded to Company employees.

2020 PSP awards

The Committee has decided to keep the level of PSP award to be made to Amjad Bseisu and Jonathan Swinney under review. Any 2020 award will be made after the AGM and will be subject to the same four performance targets as for the 2019 award, but with the adjustment in weighting outlined above.

In 2019, we again saw the clear benefits of transparency and proactive interaction with major shareholders. Discussions with major shareholders will continue as we progress our proposals for the Policy for 2021. We welcome your input and are always prepared to listen and take on board suggestions that help EnQuest to continue to mature and develop. In the light of changing business circumstances, the Committee is actively keeping relevant remuneration matters including 2020 annual bonus and performance share plan awards under review. Any changes in proposals will be shared with you in due course and fully reported in the 2020 DRR. One response already implemented is that Executive Directors, the Executive Committee and the senior leadership team have voluntarily agreed to a 20% reduction in their base salary for a three-month period. All non-Executive Directors have similarly voluntarily agreed to a three-month 20% reduction in their Board fees. These reductions will remain under review.

The Committee and I wish to thank all our shareholders for their ongoing support over the years. I hope you will all support and vote for this DRR at the forthcoming AGM.

Laurie Fitch
Chair of the Remuneration Committee
8 April 2020

Directors' remuneration report continued

Governance

General governance

The DRR has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. It also describes the Group's compliance with the Corporate Governance Code (the 'Code') in relation to remuneration. The Committee takes account of the new requirements for the disclosure of Directors' remuneration and guidelines issued by major shareholder bodies when setting the remuneration strategy for the Company. New requirements under the revised Code not already part of the Group's Policy will be reviewed during 2020 as part of the planned Policy review ahead of our AGM in 2021.

Remuneration Policy — approved by shareholders in 2018

The full Directors' Remuneration Policy was approved for three years at the 2018 AGM held on 24 May 2018 with a 'for' vote of 89.67%. The next shareholder vote on the Policy will be in 2021. The approved Policy is reproduced on the following pages for ease of reference.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion within the approved Policy. This ability to apply discretion is highlighted where relevant in the Policy and the use of discretion will always be in the spirit of the Policy.

Remuneration principles

In determining the Policy approved at the AGM held in May 2018, we reviewed our overall remuneration principles to ensure that they continued to be aligned with our strategy and shareholder interests. EnQuest's strategic objective is to be the operator of choice for maturing and underdeveloped hydrocarbon assets, focused on enhancing hydrocarbon recovery and extending the useful lives of these assets in a profitable and responsible manner.

We also want to ensure that we operate with the appropriate culture and, therefore, that remuneration principles support and reinforce the EnQuest Values. Our principles are clear and simple, to strengthen the link between reward and performance, as well as to emphasise the importance of our Values.

In summary, the principles underpinning our Policy are that remuneration for Executive Directors should:
- Support alignment of executives with shareholders;
- Be fair, reflective of best practice, and market competitive;
- Comprise fixed pay set at or below the median and variable pay capable of delivering remuneration at upper quartile; and
- Reward performance with a balance of short-term and long-term elements, shifting the emphasis to longer-term reward.

Executive Directors

General approach

The remuneration of the Executive Directors comprises base salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares), the Performance Share Plan ('PSP'), private medical insurance, life assurance, personal accident insurance, and cash in lieu of pension.

When setting remuneration for the Executive Directors, the Committee takes into account the performance and experience of the Director, as well as the Company performance, employment conditions for other employees in the Company, and the external marketplace. Data is obtained from a variety of independent sources.

The following table details EnQuest's Remuneration Policy, which became binding from 24 May 2018 following approval at the 2018 AGM:

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: Salary and fees			
To enable the recruitment and retention of Executive Directors who possess the appropriate experience, knowledge, commercial acumen and capabilities required to deliver sustained long-term shareholder value.	• Set at or below median when compared to a comparator group generally of the same size and industry as EnQuest and who have a similar level of enterprise value. • Salaries are typically reviewed by the Remuneration Committee in January each year.	Typically, the conditions and pay of all employees within the Company are factors considered by the Committee in its review. Increases in excess of the general workforce may be made where there is a significant change in duties, contribution to Company performance, personal performance, or external market conditions.	None.

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: Pension and other benefits			
Provide market–competitive employee benefits that are in line with the marketplace and enable EnQuest to attract and retain high–calibre employees, as well as providing tax–efficient provision for retirement income.	• Delivered as cash in lieu of pension, with remaining benefits provided by the Company. • Executive Directors may participate in the HMRC–approved Sharesave Scheme and benefit from share price growth. • Reviewed annually by the Remuneration Committee and adjusted to meet typical market conditions. • Where required, we would offer additional benefits in line with local market practice. • Any reasonable business–related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed.	The maximum pension allowance that may be offered is £50,000, plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third–party providers.	None.
Component: Annual bonus			
Incentivises and rewards short–term performance (over no more than one financial year) through the achievement of pre–determined annual targets which support Company strategy and shareholder value.	• Up to 100% of salary paid as cash. All bonus above 100% of salary is deferred into EnQuest shares for two years, subject to continued employment. • The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on deferred shares at the time of vesting. • Both cash and share elements of bonuses awarded from 2017 may be subject to malus or clawback in the event of a material misstatement of the Company's accounts, errors in the calculation of performance, or gross misconduct by an individual for up to three years following the determination of performance.	• Target award — 75% of salary. • Maximum award — 125% of salary.	• Using a scorecard approach, including key performance objectives such as financial, operational, project delivery, HSEA targets and net debt. These are set annually by the Remuneration Committee, with varying weightings. • Performance against key objectives has threshold, target and stretch components. • Where the threshold level of performance is met for each element, bonuses will begin to accrue on a sliding scale from 0%.
Component: Performance Share Plan ('PSP')			
Encourages alignment with shareholders on the longer–term strategy of the Company. Enhances delivery of shareholder returns by encouraging higher levels of Company performance. Encourages executives to build a shareholding.	• Annual award levels may take account of the performance of the Company and the Executive Director in the prior year. • Awards vest over three years provided corporate performance conditions have been achieved. • Awards vesting from 2022 onwards will then be subject to an additional two–year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant. • The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on shares at the time of vesting. • Awards may take the form of conditional awards, nil cost options or joint interests in shares. Where joint interests in shares are awarded, the participants and the Employee Benefit Trust ('EBT') acquire separate beneficial interests in shares in the Company. • Awards granted from 2017 onwards are subject to malus or clawback in the event of a material misstatement of the Company's accounts, errors in the calculation of performance, or gross misconduct by an individual for up to three years following the determination of performance.	• Normal maximum — 250% of salary. • Exceptional maximum — 350% of salary.	• Vesting of awards granted from 2017 will be based on, but not limited to, relative TSR, reserves growth, production growth and net debt (or debt reduction). • No more than 25% of the maximum award vests at threshold. • Details of the performance conditions applied to awards granted in the year under review and for the awards to be granted in the forthcoming year are set out in the Annual Report on Remuneration. • The number, type and weighting of performance measures may vary for future awards to help drive the strategy of the business provided these are no less challenging than the existing targets. • The Committee will normally consult with major shareholders before introducing any material new metrics.

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: Chairman and Non-Executive Director fees			
To attract Non-Executive Directors of the calibre and experience required for a company of EnQuest's size.	• Fees for the Non-Executive Directors are reviewed annually by the Chairman and Executive Directors and take into account: – typical practice at other companies of a similar size and complexity to EnQuest; – the time commitment required to fulfil the role; and – salary increases awarded to employees throughout the Company. • Non-Executive Directors are paid a base fee, with additional fees being paid to the Senior Independent Director and Committee Chairs, to reflect the additional time commitments and responsibilities these roles entail. • Additional fees may be paid if there is a material increase in time commitment and the Board wishes to recognise this additional workload. • Any reasonable business-related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed. • The Non-Executive Directors are not eligible to participate in any of the Company incentive schemes. • The Chairman's fee is set by the Senior Independent Director and consists of an all-inclusive fee.	• Limited by the Company's Articles of Association. • Reviewed periodically but at least every third year.	None.

Shareholding requirement
The Executive Directors are expected to retain 50% of shares from vested awards under the PSP (other than sales to settle any tax or social security withholdings due) until they hold at least 200% of salary in shares[1]. The Committee will review progress against this guideline on an annual basis.

Performance measures and targets
Annual bonus
The annual bonus scheme is a weighted scorecard of key performance indicators with a number of categories, under which the performance of the Company, and therefore the annual bonus of Executive Directors, is determined. The categories that form the scorecard may include, but are not limited to:
- Health, Safety, Environment and Assurance ('HSEA');
- Financial (including EBITDA, opex and capex);
- Operational performance/production;
- Project delivery;
- Reserves additions;
- Net debt; and
- Objectives linked to key accountabilities.

The measures in each category are selected by the Committee to support the creation of shareholder value. These criteria are also aligned with the longer-term strategy of the Company and the performance conditions of the Company's long-term incentive scheme. In addition to measuring performance against objectives, the Committee will consider the overall quality of the Company's financial performance, and other factors, particularly HSEA, when determining annual performance pay awards.

Amjad Bseisu's bonus objectives are normally based solely on the Company Performance Contract ('CPC') of EnQuest. Jonathan Swinney's bonus objectives may also include up to 50% based on additional objectives that cover his own specific area of key accountabilities and responsibilities.

Annual bonus and share deferrals
Executive Directors will normally receive any applicable annual bonus in cash and deferred shares. Any amount up to the equivalent of 100% of salary will be distributed in cash around the time of the announcement of full-year results, with any amount above the equivalent of 100% of salary converted into EnQuest shares (without further performance conditions) and deferred for two years, subject to continued employment. In exceptional circumstances, these awards may be settled in cash, but only with the pre-approval of the Remuneration Committee.

Note:
1 To include shares which are beneficially owned (directly or indirectly) by family members of an Executive Director

Performance Share Plan
The PSP is typically awarded annually and has a vesting period of three years. Awards vesting from 2022 onwards will be subject to an additional two-year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant. Performance conditions are attached to the awards and reflect the longer-term strategy of EnQuest. For awards granted in 2020, these will comprise:
- Relative TSR against a comparator group of oil and gas companies;
- Production growth on a Compound Annual Growth ('CAG') basis
- Reserves growth on an absolute growth basis; and
- Net debt on an absolute reduction basis

Approach to recruitment remuneration
In the event that the Company appoints a new Executive Director, either internally or externally, when determining appropriate remuneration arrangements, the Committee will take into consideration a number of factors including, but not limited to: quantum relating to prior arrangements; the remuneration of other Executive Directors in the Company; appropriate benchmarks in the industry; and the financial condition of the Company. On the appointment of a new Chair or Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual. This ensures that the arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre.

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Director on a below-market salary initially (for example, to allow them to gain experience in the role), their salary may be increased to a median market level over a period by way of increases above the general rate of wage growth in the Group and inflation.

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy at the time. Different performance measures may be set for the year of joining the Board for the annual bonus and PSP, taking into account the individual's role and responsibilities and the point in the year the executive joined.

Benefits and pensions for new appointees to the Board will be provided in line with those offered to other executives and employees taking into account corporate governance requirements and local market practice, with relocation expenses/arrangements provided for, if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with EnQuest. Legal fees and other relevant costs and expenses incurred by the individual may also be paid by the Company.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

Directors' remuneration report continued

The Committee may make additional awards on appointing an Executive Director to 'buy–out' remuneration arrangements forfeited on leaving a previous employer. Any such payments would be based solely on remuneration lost when leaving the former employer and would reflect (as far as practicable) the delivery mechanism, time horizons and performance requirement attaching to that remuneration. The Group's existing incentive arrangements, including the 2020 Restricted Share Plan ('RSP'), will be used to the extent possible for any buyout (subject to the relevant plan limits), although awards may also be granted outside of these schemes, if necessary, and as permitted under the Listing Rules.

Service contracts
Amjad Bseisu and Jonathan Swinney entered into service agreements with the Company which are terminable by either party giving not less than 12 months' written notice. The Company may terminate their employment without giving notice by making a payment equal to the aggregate of the Executive Director's basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday. Such payments may be paid monthly and/or subject to mitigation.

Executive Directors	Date of appointment	Notice period
Amjad Bseisu	22 February 2010	12 months
Jonathan Swinney	29 March 2010	12 months

The Chairman and Non–Executive Directors have letters of appointment, the details of which are provided below.

Non–Executive Directors' letters of appointment	Date of appointment	Notice period	Initial term of appointment
Martin Houston[1]	1 October 2019	3 months	3 years
Jock Lennox[2]	22 February 2010	3 months	3 years
Carl Hughes	1 January 2017	3 months	3 years
Helmut Langanger[3]	16 March 2010	3 months	3 years
Philip Holland	1 August 2015	3 months	3 years
John Winterman	7 September 2017	3 months	3 years
Laurie Fitch	8 January 2018	3 months	3 years
Howard Paver[4]	1 May 2019	3 months	3 years

Notes:
1 Martin Houston was appointed Chairman of the Board on 1 October 2019, subject to a binding vote by the shareholders at the 2020 AGM
2 Jock Lennox retired as Chairman of the Board on 30 September 2019
3 Helmut Langanger retired from the Board and as Senior Independent Director on 31 March 2020
4 Howard Paver was appointed as a Non–Executive Director on 1 May 2019 and was appointed as Senior Independent Director on 31 March 2020

External directorships
The Company recognises that its Executive Directors may be invited to become Non–Executive Directors of companies outside the Company and exposure to such non–executive duties can broaden experience and knowledge, which would be of benefit to the Company. Any external appointments are subject to Board approval (which would not be given if the proposed appointment required a significant time commitment; was with a competing company; would lead to a material conflict of interest; or could otherwise have a detrimental effect on a Director's performance). Executive Directors will be permitted to retain any fees arising from such appointments, details of which will be provided in the respective companies' Annual Report on Remuneration.

Policy on payment for loss of office
The Company's policy is for all Executive Directors to have contracts of service which can be terminated by either the Director concerned or the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to compensation for loss of basic salary and cash benefit allowance and insured benefits for the notice period up to a maximum period of 12 months. Such payments may be made monthly and would be subject to mitigation. The Company may also enable the provision of outplacement services to a departing Executive Director, where appropriate.

When Executive Directors leave the Company with good leaver status, and they have an entitlement to unvested shares granted under the Deferred Bonus Share Plan ('DBSP') and PSP, any performance conditions associated with each award outstanding would remain in place and be tested as normal at the end of the original performance period. Shares would also normally then vest on their original vesting date in the proportion to the satisfied performance conditions and are normally pro–rated for time. Awards held by Executive Directors who are not good leavers would lapse.

An annual bonus would not typically be paid to Executive Directors when leaving the Company. However, in good leaver circumstances, the Committee has the discretion to pay a pro–rated bonus in cash, in consideration for performance targets achieved in the year. Deferred bonus shares held by good leavers will normally vest at the normal vesting date.

Similar provisions related to the treatment of incentive awards would apply on a change of control, with performance conditions normally tested at the date of the change of control and with pro-rating for time, although the Remuneration Committee has discretion to waive pro-rating (but not the performance conditions) where it feels this is in the best interests of shareholders.

The Non-Executive Directors do not have service contracts but their terms are set out in a letter of appointment. Their terms of appointment may be terminated by either party giving three months' notice in writing. During the notice period, Non-Executive Directors will continue to receive their normal fee.

Remuneration Committee discretion and determinations

The Committee will operate the annual bonus scheme, DBSP, PSP, RSP and Sharesave Scheme according to their respective rules and in accordance with the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these arrangements. These include, but are not limited to, the following:

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Applying 'good leaver' status in circumstances such as death, ill health and other categories as the Committee determines appropriate and in accordance with the rules of the relevant plan;
- Discretion to disapply time pro-rating in the event of a change of control or good leaver circumstances;
- Discretion to settle any outstanding share awards in cash in exceptional circumstances;
- Adjustments or variations required in certain circumstances (e.g. rights issues, corporate restructuring, change of control, special dividends and other major corporate events); and
- The ability to adjust existing performance conditions and performance targets for exceptional events so that they can still fulfil their original purpose.

If an event occurs which results in any applicable performance conditions and/or targets being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

If tax liabilities arise from an error or omission by the Company that is outside of the control of the Executive Directors, the Committee will have the ability to reimburse any such tax liabilities.

Legacy awards

For the avoidance of doubt, authority is given to the Committee to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwind of legacy share schemes) that have been disclosed to shareholders in this or any previous DRRs or subsequently agreed in line with the approved Policy in force at that time. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

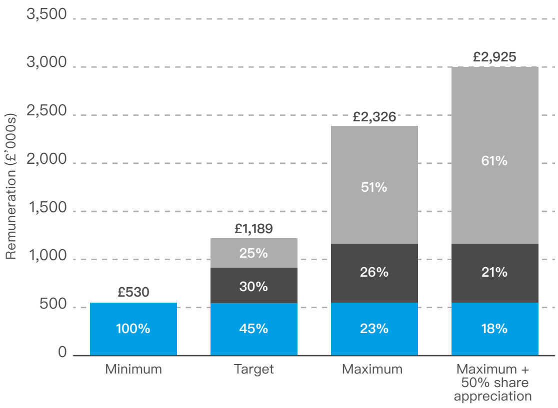
Remuneration outcomes in different performance scenarios

The charts on the following page set out an illustration of the remuneration arrangements for 2020 in line with the Policy. These charts provide an illustration of the proportion of total remuneration made up of each component of the Policy and the value of each component.

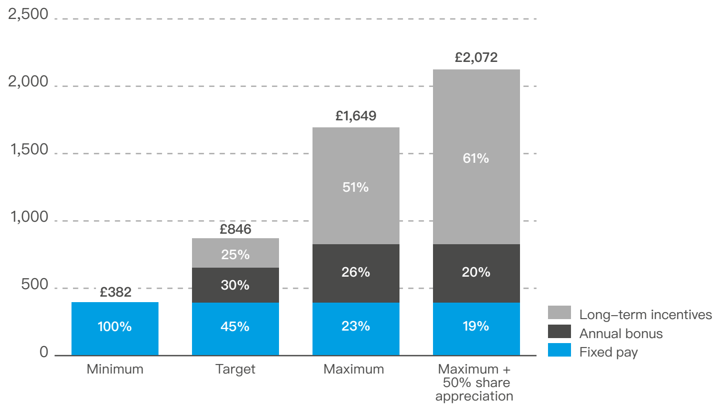
In accordance with the remuneration reporting requirements that came into effect from 1 January 2019, four 2020 scenarios are illustrated for each Executive Director:

Below threshold performance	• Fixed remuneration • Zero annual bonus • No vesting under the PSP
Target performance	• Fixed remuneration • 75% of annual base salary as annual bonus • 25% of maximum vesting under the PSP at threshold performance
Maximum performance	• Fixed remuneration • 125% of annual base salary as annual bonus • Full vesting under the PSP
Maximum performance plus 50% share appreciation	• Fixed remuneration • Maximum payout under the annual bonus • Full vesting under the PSP plus assumed 50% share price appreciation at vesting

Directors' remuneration report continued



Chief Executive (£'000s)



Chief Financial Officer (£'000s)

Note:
For Amjad Bseisu (CEO), fixed pay comprises salary from 1 January 2020, a pension allowance of £50,000 plus medical insurance benefit of £1,500
For Jonathan Swinney (CFO), fixed pay comprises salary from 1 January 2020, a pension allowance of £42,500 plus medical insurance benefit of £1,500

Statement of consideration of employment conditions elsewhere in the Company
The remuneration arrangements for the Executive Directors are consistent with the remuneration principles that have been established and are similar to those of the other employees of EnQuest.

The key differences are as follows:
- Executive Directors and members of the Executive Committee have their fixed pay set below or at market median for the industry; other employees typically have their salaries positioned at market median. Specific groups of key technical employees may have their salaries set above median for the industry;
- All employees are offered a non-contributory pension scheme. Executive Directors are given cash in lieu of pension. Non-Executive Directors do not participate in pension or benefits arrangements;
- Non-Executive Directors do not participate in the annual bonus scheme;
- If applicable, Executive Directors have an element of the annual bonus automatically converted to shares and deferred; and
- All other employees may be invited to participate in the DBSP where they can elect to defer a defined proportion of their annual bonus and receive a matching amount of shares that vest over the following three years. Executive Directors are not eligible to receive matching share awards under this plan.

During the annual remuneration review, the Committee receives a report which details the remuneration arrangements of other executives and senior management as well as the overall spend versus budget for all employees. This report helps to act as a guide to the Committee as to the levels of reward being achieved across the organisation so that they can ensure the Directors' pay does not fall out of line with the general trends.

Employees have not previously been directly consulted about the setting of Directors' pay, although the Committee will take into consideration any developments in regulations in operating this policy.

Statement of shareholder views
The Remuneration Committee welcomes and values the opinions of EnQuest's shareholders with regard to the levels of remuneration for Directors. The 2018 DRR was voted on at the AGM held in May 2019, where 81.39% of the votes cast were in favour.

Annual Report on Remuneration for 2019

Terms of reference
The Committee's terms of reference are available either on the Company website, www.enquest.com, or by written request from the Company Secretariat team at the Group's London headquarters. The remit of the Committee embraces the remuneration strategy and policy for the Executive Directors, the Executive Committee, senior management and, in certain matters, for the whole Company.

Meetings in 2019

The Committee normally has four scheduled meetings per year. During 2019, it met on four occasions as scheduled to review and discuss base salary adjustments for 2020, the setting of Company performance conditions and related annual bonus for 2019, PSP performance conditions, UK Corporate Governance Code provisions and the approval of share awards.

Committee members, attendees and advisers

Member[1]	Date appointed Committee member	Attendance at scheduled meetings during the year
Helmut Langanger[2]	16 March 2010	4/4
Laurie Fitch[3]	8 January 2018	4/4
Howard Paver	1 May 2019	2/2
Martin Houston	15 October 2019	1/1

Notes:
1 Carl Hughes, Philip Holland and John Winterman all stepped down from the Committee on 15 October 2019 as part of the refresh of the Group's Board Committee memberships
2 Helmut Langanger retired from the Board and as Senior Independent Director on 31 March 2020
3 Laurie Fitch assumed the role of Chair of the Remuneration Committee on 29 January 2019, replacing Helmut Langanger who stepped down as Chairman of the Committee on the same day

Advisers to the Remuneration Committee

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions in the Company as a whole. These individuals, who are not members but may attend by invitation, include, but are not limited to:
- The Chief Executive (Amjad Bseisu);
- The Chief Financial Officer (Jonathan Swinney);
- The Company Secretary (Stefan Ricketts);
- A representative from the Group's Human Resources department; and
- A representative from Mercer Kepler, appointed as remuneration adviser by the Committee from 1 August 2017.

No Director takes part in any decision directly affecting their own remuneration.

Information subject to audit

Directors' remuneration: the 'single figure'

In this section of the report we have set out the payments made to the Executive and Non-Executive Directors of EnQuest for the year ended 31 December 2019 together with comparative figures for 2018.

Single total figure of remuneration — Executive Directors

	'Single figure' of remuneration — £'000s											
Director	**Salary and fees 2019**	Salary and fees 2018	**All taxable benefits 2019**	All taxable benefits 2018	**Annual bonus 2019[1]**	Annual bonus 2018[1]	**LTIP 2019[2]**	LTIP 2018[2]	**Pension 2019[3]**	Pension 2018[3]	**Total for 2019[4]**	Total for 2018[4]
Amjad Bseisu	**470**	461	**1**	1	**478**	454	**449**	340	**50**	50	**1,448**	1,306
Jonathan Swinney	**329**	318	**1**	1	**357**	354	**292**	222	**50**	50	**1,031**	945
Total[4]	**799**	779	**3**	3	**835**	808	**741**	562	**100**	100	**2,479**	2,251

Notes:
1 The annual bonus for 2019 for Amjad Bseisu and Jonathan Swinney was based on base salary levels and payment was made in respect of the full financial year. The amount stated is the full amount (including any portion deferred). Any Executive Director bonus for Amjad Bseisu and Jonathan Swinney that is above 100% of their respective salary is paid in EnQuest PLC shares, deferred for two years, and subject to continued employment
2 **PSP awarded on 12 September 2017 which will vest on 12 September 2020:** the LTIP value shown in the 2019 single figure is calculated by taking the number of performance shares that will vest (49.6%) multiplied by the average value of the EnQuest share price between 1 October 2019 and 31 December 2019, as the share price on 12 September 2020 was not known at the time of this report
PSP awarded on 22 April 2016 which vested on 22 April 2019: the LTIP value shown in the 2018 single figure is calculated by taking the number of performance shares that vested (55.7%) multiplied by the actual share price of 23.1 pence on the next business day following the vesting date of 22 April 2019, as the vesting date was a public holiday in the UK. The 2018 value of the vested shares in the remuneration table has been updated from last year's value to represent the actual value received on the date of vesting
3 Cash in lieu of pension
4 Rounding may apply

Directors' remuneration report continued

Single total figure of remuneration — Non-Executive Directors

The remuneration of the Non-Executive Directors for the year ended 31 December 2019 was as follows, together with comparative figures for 2018:

	'Single figure' of remuneration — £'000s					
Director	Salary and fees 2019	Salary and fees 2018	All taxable benefits 2019	All taxable benefits 2018	Total for 2019	Total for 2018
Jock Lennox[1]	156	150	–	–	156	150
Carl Hughes	70	60	–	–	70	60
Helmut Langanger[2]	70	70	–	–	70	70
Laurie Fitch[3]	70	50	–	–	70	50
Philip Holland	70	60	–	–	70	60
John Winterman[4]	62	50	–	–	62	50
Martin Houston[5]	50	–	–	–	50	–
Howard Paver[6]	40	–	–	–	40	–
Total	**588**	440	–	–	**588**	440

Notes:
1 Jock Lennox retired as Chairman of the Board on 30 September 2019. His fees were pro-rated
2 Helmut Langanger stepped down as Chairman of the Remuneration Committee on 29 January 2019 and retired from the Board on 31 March 2020
3 Laurie Fitch assumed the role of Chair of the Remuneration Committee on 29 January 2019
4 John Winterman was appointed as Chairman of the Technical Committee on 15 October 2019. His fees were pro-rated
5 Martin Houston was appointed as Chairman of the Board and Chairman of the Nomination Committee on 1 October 2019. His fees were pro-rated
6 Howard Paver was appointed as Non-Executive Director on 1 May 2019. His fees were pro-rated

Annual bonus 2019 — paid in 2020

The Committee's belief is that any short-term annual bonus should be tied to the overall performance of the Company. An Executive Director's annual bonus may also be tied to additional objectives that cover their own specific area of key accountabilities and responsibilities. The maximum bonus entitlement for the year ended 31 December 2019 as a percentage of base salary was 125% for Amjad Bseisu and Jonathan Swinney.

For Amjad Bseisu, the annual bonus for 2019 was wholly based on the CPC results. For Jonathan Swinney, 50% of the bonus potential was assessed against the CPC and 50% on achievement against personal targets based on key objectives for the year in his area of responsibility.

Company Performance Contract

The details of the CPC for both Amjad Bseisu and Jonathan Swinney and the personal objectives for Jonathan Swinney are set out in the following tables, showing the performance conditions and respective weightings against which the bonus outcome was assessed. The actual percentage payout against each performance measure item has been adjusted down to reflect the application of the HSEA performance override.

		Performance targets and payout			
Performance measure	Weighting			Amjad Bseisu	Jonathan Swinney
Production (Mboepd)	25.00%	Threshold: 63.0 Maximum: 70.0	Maximum bonus % available	31.25%	15.63%
		Actual: 68.6	**Actual % payout**	**21.93%**	**10.97%**
Opex Value of Work Done ('VOWD') ($ million)	15.00%	Threshold: 630 Maximum: 580	Maximum bonus % available	18.75%	9.38%
		Actual: 521	**Actual % payout**	**17.37%**	**8.69%**
Cash capex ($ million)	5.00%	Threshold: 300 Maximum: 260	Maximum bonus % available	6.25%	3.13%
		Actual: 238	**Actual % payout**	**5.79%**	**2.90%**
Net debt ($ million) including PIK at end 2019	20.00%	Threshold: 1,860 Maximum: 1,665	Maximum bonus % available	25.00%	12.50%
		Actual: 1,413	**Actual % payout**	**23.17%**	**11.58%**

Performance measure	Weighting	Performance targets and payout		Amjad Bseisu	Jonathan Swinney
Projects First oil from pipeline projects	5.00%	Threshold: Budget date plus two months Maximum: Budget date less one month	Maximum bonus % available	6.25%	3.13%
		Actual: Between target and stretch	**Actual % payout**	**5.33%**	**2.66%**
Projects Regulatory approval of enhanced oil recovery strategy at Magnus	5.00%	Threshold: End Q4 2019 Maximum: End August 2019	Maximum bonus % available	6.25%	3.13%
		Actual: Approved by regulator in June 2019	**Actual % payout**	**5.79%**	**2.90%**
Kraken First oil from DC4	5.00%	Threshold: DC4 two producers start up by end Q2 2019 Maximum: DC4 two producers start up by mid–March 2019	Maximum bonus % available	6.25%	3.13%
		Actual: Stretch as DC4 two producers started early March 2019	**Actual % payout**	**5.79%**	**2.90%**
Kraken Optimise production efficiency	10.00%	Threshold: 70% Maximum: 80%	Maximum bonus % available	12.50%	6.25%
		Actual: 77%	**Actual % payout**	**8.80%**	**4.40%**
Culture and Values	10.00%	Demonstrate leadership and achievement of EnQuest Values all year	Maximum bonus % available	12.50%	6.25%
		Actual: Achievement judged to be between target and stretch	**Actual % payout**	**7.88%**	**3.94%**
Total bonus payout (% of salary)				**101.86%**	**50.93%**

Note: Rounding may apply

Any payout against the CPC is subject to an additional underpin based on the Committee's assessment of the Company's HSEA performance. HSEA performance was reviewed by the Committee in February 2020 and determined to be lower than target. A reduction has therefore been applied by the Committee to the CPC result and annual bonus calculations for Executive Directors and Executive Committee members.

Personal objectives were set individually for Jonathan Swinney based on his key areas of focus for the year within his area of responsibility. Please note that for reasons of commercial sensitivity, full details of the target ranges are not being disclosed. However, the following table highlights the key objectives and achievements as assessed by the Committee for Jonathan Swinney's individual performance targets for 2019.

Directors' remuneration report continued

Jonathan Swinney
Individual Performance Contract

Objective	Weighting	Maximum bonus available	Measures	Key achievements	Performance outcome	Percentage of bonus achieved
Balance sheet responsibility (including liquidity)	30.00%	18.75%	Deliver appropriate funding to maintain liquidity	Assessed refinancing options and secured additional surety bonds		18.75%
Financial control and discipline	20.00%	12.50%	Drive control environment and assess effectiveness. Support appropriate cost recovery across the portfolio	Achieved high levels of controls compliance with appropriate financial controls across the Group's geographies		11.45%
Strategy and business delivery	25.00%	15.63%	Ensure alignment of asset strategies and business plan processes and delivering technology–led finance projects	Aligned strategy and planning processes. Technology programmes designed and delivered on schedule and in accordance with agreed roadmap		14.50%
Organisation development and people	15.00%	9.38%	Succession and development plans in place for critical finance leadership team roles. Optimise contribution of all resources	Detailed plans and development actions delivered. Resources aligned to strategy and business plans		8.63%
Values and leadership behaviour	10.00%	6.25%	Demonstrate leadership to align teams to EnQuest's values and behaviours	Coaching of team activity to create the right culture and behaviours in all day–to–day actions across the Finance team		4.25%
Total:	**100.00%**	**62.51%**				**57.58%**

The annual bonus summary for the Executive Directors for 2019 is shown in the table below. The Committee carefully assessed the achievement of the performance conditions against the CPC for Amjad Bseisu and against the CPC and personal objectives for Jonathan Swinney to determine the overall level of annual bonus for each Executive Director. The HSEA performance adjustment was made by the Committee to the CPC performance outturn.

Performance measure[1]	Weighting	Amjad Bseisu Max	Amjad Bseisu Actual % payout of salary	Jonathan Swinney Max (50%)	Jonathan Swinney Actual % payout of salary
Production (Mboepd)	25.00%	31.25%	21.93%	15.63%	10.97%
Opex VOWD ($ million)	15.00%	18.75%	17.37%	9.38%	8.69%
Cash capex ($ million)	5.00%	6.25%	5.79%	3.13%	2.90%
Net debt including PIK ($ million)	20.00%	25.00%	23.17%	12.50%	11.58%
Projects	10.00%	12.50%	11.12%	6.25%	5.56%
Kraken	15.00%	18.75%	14.59%	9.38%	7.30%
Culture and Values	10.00%	12.50%	7.88%	6.25%	3.94%
Sub-total	**100.00%**	**125.00%**	**101.86%**	**62.50%**	**50.93%**
Personal objectives	n/a	n/a	n/a	62.50%	57.58%
Total payout (%)[2]	**100.00%**	**125.00%**	**101.86%**	**125.00%**	**108.51%**
Total payout (% of maximum)			**81.49%**		**86.80%**
Total 2019 bonus award (£)			**£478,463**		**£357,475**

Notes:
Rounding may apply
1 In relation to the financial measures, threshold, target and stretch performance pays out at 0%, 60% and 100% of maximum respectively and on a straight-line basis in between threshold and target performance and between target and stretch performance
2 Any bonus that exceeds 100% of the Executive Director's salary is converted into EnQuest shares to be retained for a further two years until April 2022

2017 PSP awards that vest in 2020

The LTIP award made to Executive Directors on 12 September 2017 was based on the performance to the year ended 31 December 2019 and will vest on 12 September 2020.

The performance targets for this award and actual performance against those targets over the three-year financial period were as follows:

			Performance conditions and weighting				
Grant date	Vesting date	Performance period	Relative TSR	Production growth	Reduction in net debt	Reserves growth	Total award
12 Sep 2017	12 Sep 2020	1 Jan 2017 — 31 Dec 2019	30.00%	30.00%	30.00%	10.00%	100.00%
Below threshold				39,751 Boepd	$1,796.5 million	215.5 MMboe	
Threshold			Median	52,909 Boepd	$1,527.0 million	226.0 MMboe	
Maximum			Upper quartile	68,690 Boepd	$1,257.5 million	237.0 MMboe	
Actual performance achieved			**7th position**	**62,806 Boepd[1]**	**$1,413.0 million**	**198.8 MMboe[1]**	
Percentage meeting performance conditions and total vest			**10.92%**	**21.61%**	**17.02%**	**0.00%**	**49.55%**

Note:
1 Adjusted to include the impact of the non-equity funded element in the acquisition of an additional 75% interest in Magnus

Directors' remuneration report continued

The table below shows the number of nil cost options awarded on 12 September 2017 that will vest on 12 September 2020 and their value as at 31 December 2019. This figure is calculated by taking the average closing share price on each trading day of the period 1 October 2019 to 31 December 2019 and is used as the basis for reporting the 2019 'single figure' of remuneration. The actual value of these shares recorded in the remuneration table will be updated in 2020 to represent the actual value received on the day of vesting.

Name	Total shares	Portion vesting	No. of shares vesting	Average share price £	Value at 31 Dec 2019 £
Amjad Bseisu	4,837,499	49.55%	2,396,980	0.187247	448,827
Jonathan Swinney	3,149,999	49.55%	1,560,824	0.187247	292,260

The 2017 PSP award granted was based on the average middle market quotation of the three dealing days immediately preceding the date of grant of 12 September 2017 of 22.04p. Compared to the average value of the EnQuest share price between 1 October 2019 and 31 December 2019 of 18.72p, this represents a 15% decrease in the share price over the period.

Should the share price be the same at vesting as at grant, with the performance outturn of 49.55%, the value would be 18% higher than currently estimated using the average value of the EnQuest share price between 1 October 2019 and 31 December 2019. The Committee is satisfied that the implied values vesting to Executive Directors and the overall single figures of remuneration for the year are appropriate taking into account the performance of the Company. No discretion has therefore been exercised in relation to this fall in share price.

April 2019 PSP award grant
After due consideration of business performance in 2018, the Remuneration Committee awarded the Executive Directors the following performance shares on 24 April 2019:

	Face value (% of 2018 salary)	Face value at date of grant[1] £	No. of shares	Performance period
Amjad Bseisu	250%	1,151,320	5,215,886	1 Jan 2019 – 31 Dec 2021
Jonathan Swinney	250%	807,500	3,658,260	1 Jan 2019 – 31 Dec 2021

Note:
1 Based on the middle market quote for the three days preceding the date of grant of 22.07 pence

Summary of performance measures and targets – April 2019 PSP grant
The 2019 PSP share awards granted on 24 April 2019 have four sets of performance conditions associated with them, over a three-year financial performance period:
- 30% of the award relates to TSR relative to a comparator group of 14 oil and gas companies over the same period;
- 30% relates to production growth on a Compound Annual Growth ('CAG') basis from a 2019 base level;
- 10% relates to reserves growth (on an absolute basis) from a 2019 base level; and
- 30% is calculated on net debt reduction (on an absolute basis) from a 2019 base net debt figure.

Vesting is determined on a straight-line basis between threshold and maximum for all of the performance conditions.

The performance period for the award will be 1 January 2019 to 31 December 2021, with the awards vesting on 24 April 2022.

2019 PSP – schedule for vesting in 2022

	Relative TSR weighting 30%		Production growth weighting 30%		Reserves growth weighting 10%		Reduction in net debt weighting 30%	
	Performance	Vesting	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 10% growth from base (CAG)	0%	Less than 105% of base	0%	Less than 25% reduction	0%
Threshold[1]	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	25% reduction	25%
Maximum[1]	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	35% reduction (or better)	100%

Note:
1 Linear between threshold and maximum

PSP measure base levels

These are the historical base levels that performance is measured from, for a three-year period for each annual PSP grant, up to and including the PSP award granted in 2019:

Year of grant	Production growth – base level	Reserves growth – base level	Net debt – base level
2017	39,751 Boepd	215.5 MMboe	$1,796.5 million
2018	37,405 Boepd	210.3 MMboe	$1,991.4 million
2019	55,447 Boepd	245.2 MMboe	$1,774.5 million

The comparator group companies for the TSR performance condition relating to the 2019 PSP award are as follows:

FTSE 350	FTSE All-Share	FTSE AIM – Top 100	NASDAQ OMX Stockholm	Other
Cairn Energy	Premier Oil	Amerisur Resources	Africa Oil	Genel Energy
Ophir Energy[1]	Pharos Energy[2]	Hurricane Energy	Lundin Petroleum	
Tullow Oil		Rockhopper Exploration	Aker BP ASA	
		Bowleven		
		Serica		

Notes:
1 Ophir Energy was acquired by Medco Energi Global on 22 May 2019. Consistent with the agreed methodology of keeping companies subject to M&A in the comparator group, analysis will track the median TSR performance from the date of the event to the date performance is measured
2 Soco International was renamed Pharos Energy in October 2019

The number of PSP awards outstanding as at 31 December 2019 are as follows:

	Total shares awarded	Performance period	Performance conditions (and weighting)	Vesting date
Grant date – September 2017			TSR (30%)	12 Sep 2020
Amjad Bseisu	4,837,499	1 Jan 2017 – 31 Dec 2019	Production growth (30%)	
Jonathan Swinney	3,149,999		Reserves growth (10%)	
			Net debt reduction (30%)	
Grant date – April 2018			TSR (30%)	24 Apr 2021
Amjad Bseisu	3,587,060	1 Jan 2018 – 31 Dec 2020	Production growth (30%)	
Jonathan Swinney	2,335,759		Reserves growth (10%)	
			Net debt reduction (30%)	
Grant date – April 2019			TSR (30%)	24 Apr 2022
Amjad Bseisu	5,215,886	1 Jan 2019 – 31 Dec 2021	Production growth (30%)	
Jonathan Swinney	3,658,260		Reserves growth (10%)	
			Net debt reduction (30%)	

Pension allowance

Executive Directors do not participate in the EnQuest pension plan and instead receive cash in lieu. Both Amjad Bseisu and Jonathan Swinney received £50,000 in 2019. These were equivalent to 10.6% of Amjad Bseisu's 2019 salary and 15.2% of Jonathan Swinney's 2019 salary.

Statement of Directors' shareholding and share interests

The interests of the Directors in the share capital of the Company as at 31 December 2019 are shown below:

In 2019, the following awards were granted, vested and lapsed for the Executive Directors

PSP	31 December 2018	Granted	Lapsed	31 December 2019	Vesting period	Expiry date
Amjad Bseisu	2,645,138		1,171,797	1,473,341	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
	4,837,499			4,837,499	12 Sep 2017 – 12 Sep 2020	12 Sep 2027
	3,587,060			3,587,060	24 Apr 2018 – 24 Apr 2021	24 Apr 2028
		5,215,886		5,215,886	24 Apr 2019 – 24 Apr 2022	24 Apr 2029

Directors' remuneration report continued

PSP	31 December 2018	Granted	Lapsed	31 December 2019	Vesting period	Expiry date
Jonathan Swinney	1,722,415		763,030	959,385	22 Apr 2016 — 22 Apr 2019	22 Apr 2026
	3,149,999			3,149,999	12 Sep 2017 — 12 Sep 2020	12 Sep 2027
	2,335,759			2,335,759	24 Apr 2018 — 24 Apr 2021	24 Apr 2028
		3,658,260		3,658,260	24 Apr 2019 — 24 Apr 2022	24 Apr 2029

The table above and on the previous page show the maximum number of shares that could be released if awards were to vest in full. These awards first vest on the third anniversary of the award date, subject to the achievement of performance conditions (as described elsewhere in this report). Awards vesting from 2022 onwards will then be subject to an additional two-year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant.

Statement of Directors' shareholdings and share interests

Executive Directors are currently required to build up and hold shares in the Company worth 200% of salary and are expected to retain 50% of shares from vested awards under the PSP (other than sales to settle any tax or social security withholdings due) until they hold at least 200% of salary in shares (this includes shares which are beneficially owned directly or indirectly by family members of an Executive Director).

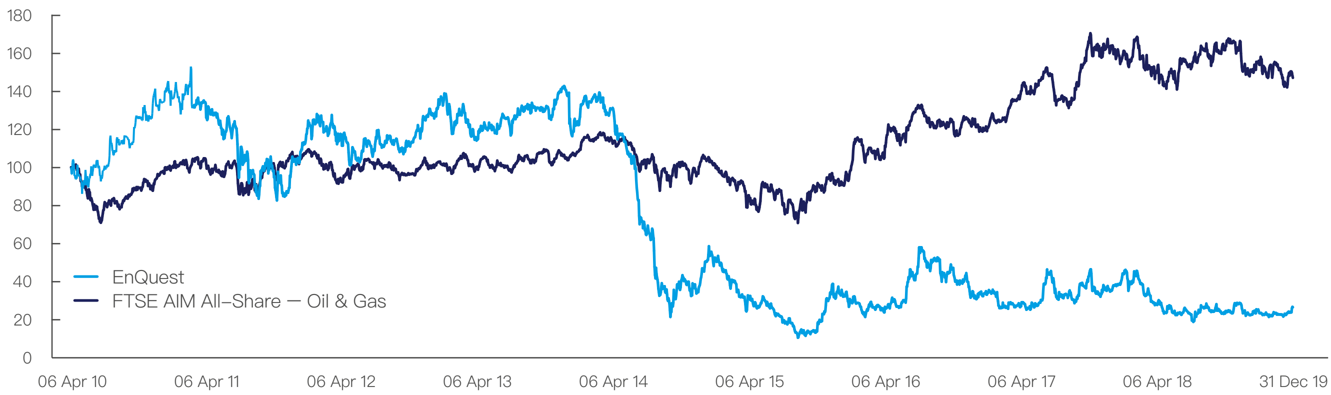
	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the PSP	Vested but not exercised under the RSP	Sharesave	Executive deferrals	Total at 31 December 2019	Value of shareholding as a % of salary[1]
Amjad Bseisu	178,127,658[2]	7,100%	13,640,445	—	—	—	—	191,768,103	7,644%
Jonathan Swinney	290,208	16%	9,144,018	2,167,959	894,551	—	1,963,454	14,460,190	822%
Helmut Langanger	700,000	n/a	n/a	n/a	n/a	n/a	n/a	700,000	n/a
Philip Holland	154,760	n/a	n/a	n/a	n/a	n/a	n/a	154,760	n/a
Carl Hughes	28,571	n/a	n/a	n/a	n/a	n/a	n/a	28,571	n/a
John Winterman	28,571	n/a	n/a	n/a	n/a	n/a	n/a	28,571	n/a
Laurie Fitch	70,000	n/a	n/a	n/a	n/a	n/a	n/a	70,000	n/a
Martin Houston	500,000	n/a	n/a	n/a	n/a	n/a	n/a	500,000	n/a
Howard Paver	—	n/a	n/a	n/a	n/a	n/a	n/a	—	n/a

Notes:
1 Shares are valued by taking the average closing share price on each trading day of the period 1 October 2019 to 31 December 2019
2 As at 31 December 2019, 161,380,583 shares were held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 16,579,528 shares were also held by The Amjad and Suha Bseisu Foundation and the remaining 167,547 shares were held by Amjad Bseisu directly

Information not subject to audit

Total Shareholder Return and Chief Executive total remuneration

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE AIM All-Share Oil & Gas, also measured by TSR. The FTSE AIM All-Share Oil & Gas index has been selected for this comparison as it is the index whose constituents most closely reflect the size and activities of EnQuest.



Historical Chief Executive pay — single figure history

The table below sets out details of the Chief Executive's pay for 2019 and the previous six years and the payout of incentive awards as a proportion of the maximum opportunity for each period. The Chief Executive's pay is calculated as per the 'single figure' of remuneration shown elsewhere in this report. During this time, Amjad Bseisu's total remuneration has been:

	2013	2014	2015	2016	2017	2018	**2019**
'Single figure' of total remuneration (£'000s)	1,356	817	884	941	998	1,306	**1,448**
Annual bonus (as a % of maximum)	50	24	27	33	57	79	**81**
Long-term incentive vesting rate (as a % of maximum PSP)	67	79	77	56	11	56	**50**

CEO pay ratio 2019

The CEO pay ratio has been calculated using the 'Option A' methodology which compares the single total figure of remuneration ('STFR') of the CEO to UK employees for the 12-months ending 31 December 2019 on a full-time equivalent basis. This methodology has been chosen as it offers the most accurate and preferred approach for companies to apply based on institutional investor guidelines.

			CEO pay ratio		
Financial year	Methodology		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	A	STFR	23:1	14:1	11:1

Total remuneration is as defined in the single total figure of remuneration for Executive Directors. EnQuest has determined the P25, P50 and P75 individuals with reference to a ranking of total remuneration and by identifying those employees with the most typical pay structure of a UK-based employee. All employees have been included as at 31 December 2019, with remuneration of part-time employees and those employees on statutory leave included on a full-time equivalent basis.

Data points reflect the 25th, 50th and 75th percentile of all UK employees' total remuneration as follows:

				UK STFR		
Financial year	Methodology		CEO	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	A	STFR	£1,448,480	£62,717	£104,769	£129,558
2019	A	Base salary	£469,741	£51,952	£76,503	£87,941

In setting both the CEO remuneration and the remuneration structures for the wider UK workforce, EnQuest has adopted a remuneration structure which includes the same elements for employees at all levels (base pay, benefits, pension, cash bonus and share awards). Whilst all employees receive a base salary that is market competitive for their role and commensurate with our business size, the differences exist in the quantum of variable pay that is achievable by the senior executive team and by individuals at more senior management levels in the Company. At these levels, where there is a greater opportunity to influence Company performance, there is a greater emphasis on aligning executives with shareholders. Based on this distinction, the Company believes that the median pay ratio is consistent with the wider pay, reward and progression policies impacting UK employees.

Relative spend on pay

The table below shows the actual expenditure of the Group on total employee pay, as well as profitability and distributions to shareholders, and the change between the current and previous years:

	2018 $ million	**2019 $ million**
EBITDA	716	**1,007**
Net debt	1,775	**1,413**
Distribution to shareholders	0	**0**
Total employee pay	136	**158**

Note: EBITDA has been chosen as an appropriate measure of return to shareholders and net debt as a measure of EnQuest's commitment to its lenders

Increase in the Chief Executive's pay relative to the workforce between 2018 and 2019

	Base salary %	Bonus %	Benefits %
Amjad Bseisu	2.0	5.3	0.0
UK employees (average)	2.0	24.9	0.0

Note: UK employees have been chosen as the most appropriate comparator group as the majority of the EnQuest workforce is UK based and their pay structure is comparable to the CEO

Directors' remuneration report continued

Statement of implementation of the remuneration policy for the year ending 31 December 2020

Base salary and 2020 pay review

As stated in the annual statement to this report, the remuneration for the Executive Directors is geared towards variable pay linked to long-term performance targets, with base salaries currently set in relation to benchmarks for the oil and gas industry and comparable sized companies. In the view of the Committee it is therefore important to ensure that the base salaries of the Executive Directors are reviewed annually and that any increase reflects the change in scale and complexity of the role as the Company grows, as well as the performance of the Executive Director. The table below shows the change to salaries for 2020:

Name	Salary for 2019 £	**Salary for 2020 £**	Increase %
Amjad Bseisu	469,741	**479,136**	2.0
Jonathan Swinney	329,460	**338,290**	2.7

The increases for Amjad Bseisu and Jonathan Swinney were implemented from 1 January 2020. The Company employees are, in general, receiving typical salary increases of approximately 1.5% to 3.0%.

Pension and other benefits

The Company will continue to pay a cash benefit in lieu of pension of up to £50,000 in respect of the CEO, with an adjustment schedule applied to the pension benefit for the CFO on a phased basis over two years to align to the wider employee base. The Company will also continue to pay private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third-party providers.

Annual bonus

For the year ended 31 December 2020, the target and maximum annual bonus opportunities for Executive Directors will continue to be 75% of salary at target and 125% of salary at maximum.

The annual bonus scheme for 2020 is structured as follows:

- Awards will be determined based on a balanced combination of financial and operational performance measures;
- Executive Directors (and other executive management) will have threshold, target and stretch performance levels attributed to key performance objectives;
- Amjad Bseisu's bonus will be determined solely by the performance of the Company;
- Jonathan Swinney's bonus will be determined 50% on the performance of the Company and 50% on performance concerning his direct area of responsibility;
- Each part of the bonus will represent a discrete element which will be added together to determine the performance award for the year; and
- Stretching targets will continue to apply to achieve maximum payout.

The 2020 metrics and weightings, which will determine the level of short-term incentive awards for the Directors, are set out below.

Company 2020 performance measures scorecard

Metric	Weighting
Production	40%
Opex VOWD	30%
Capex cash	10%
Environmental Social and Governance	10%
Culture/Values	10%

Notes:
1 Precise targets are commercially sensitive and are not being disclosed in advance at this time
2 Performance in HSEA is central to EnQuest's overall results. This category is used as an overlay on overall Company performance

Maximum bonus will only be payable when performance significantly exceeds expectations. To the extent that the targets are no longer commercially sensitive, they will be disclosed in next year's report.

Any amount of bonus earned above 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

Performance share awards
2020 PSP awards
The Committee has decided to keep the level of PSP award to be made to Amjad Bseisu and Jonathan Swinney under review. Any 2020 award will be made after the AGM and will be subject to the performance measures and targets set out below.

Summary of 2020 PSP performance measures and targets
The PSP share awards granted in 2020 will have four performance metrics, each of which is measured over a three-year financial period:
- 50% of the award relates to TSR against a comparator group of 13 oil and gas companies;
- 15% relates to production growth (on a CAG basis);
- 5% relates to reserves growth (on an absolute growth basis); and
- 30% relates to net debt (on an absolute reduction basis).

2020 PSP — schedule for 2023 vesting

	Relative TSR		Production growth		Reserves growth		Reduction in net debt	
	Performance	Vesting	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 10% growth from base (CAG)	0%	Less than 105% of base	0%	Less than 25% reduction	0%
Threshold	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	25% reduction	25%
Maximum	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	35% reduction (or better)	100%

The Committee is still determining the most appropriate base level figures in the light of changing business circumstances and this will be shared with shareholders in due course and fully reported in the 2020 DRR.

2020 PSP award TSR comparator group

Africa Oil
Aker BP
Amerisur Resources
Bowleven
Cairn Energy
Genel Energy
Hurricane Energy
Lundin Petroleum
Pharos Energy
Premier Oil
Rockhopper Exploration
Serica Energy
Tullow Oil

Non-Executive Directors
The fees for the Non-Executive Directors with effect from 1 January 2020 are:

	Fee
Chairman	£200,000
Director	£60,000
Senior Independent Director	£10,000
Committee Chair	£10,000

External benchmarking of Non-Executive Directors is carried out on an annual basis. Base Director fees were increased from 1 January 2019 and agreed to be held for a period of two years.

Advisers to the Committee
Mercer Kepler provided advice to the Remuneration Committee.

The Committee satisfied itself that the advice given was objective and independent by reviewing it against other companies in EnQuest's comparator group. Mercer Kepler are signatories to the Remuneration Consultants Group Code of Conduct which sets out guidelines for managing conflicts of interest. Mercer Kepler do not provide any other services to the Company.

The fees in respect of 2019 paid to Mercer Kepler totalled £71,045 (excluding VAT). These fees were charged on the basis of the number of hours worked.

Directors' remuneration report continued

Statement of voting at the Annual General Meeting

The table below summarises the voting at the AGM held on 24 May 2018 in respect of the Remuneration Policy and 23 May 2019 in respect of the Directors' Remuneration Report. The Group is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Policy (2018)	478,601,098	89.67%	55,126,159	10.33%	533,727,257	22,477,048
Remuneration Report (2019)	621,494,781	81.39%	142,136,742	18.61%	763,631,523	3,295,616

Laurie Fitch
Chair of the Remuneration Committee
8 April 2020

Nomination committee report

> The Nomination Committee has taken the opportunity to review the composition of the Board Committees to ensure that they remain efficient, effective and benefit from new perspectives.

Martin Houston
Chairman of the Nomination Committee

Dear fellow shareholder

As reported in last year's Annual Report, one of the main tasks of the Committee was to recruit a new Chair of the Board. Helmut Langanger, as Senior Independent Director ('SID') of the Company, led the process and I was pleased to be appointed to the position on 1 October 2019. More information on the process relating to my appointment can be found on the following page.

One of my first tasks on appointment as Chairman of the Board and also Chairman of this Committee, was to consider the succession planning process to appoint a new SID for the Company. As explained last year, Helmut Langanger, having served over nine years on the Board, would step down (as SID and as a Non-Executive Director) once a new SID had been identified following the Chairman's appointment. I am pleased to report that Howard Paver, appointed to the Company on 1 May 2019, was elected to role of SID with effect from 31 March 2020. Consequently, Helmut, having stepped down as SID on Howard's appointment to the position, retired from the Board on 31 March 2020. I would like to thank him for his dedication to the Company since its formation and also for his support to me on my appointment.

Since my appointment, the Nomination Committee has taken the opportunity to review the composition of the Board Committees to ensure that they remain efficient, effective and benefit from new perspectives. As a result, membership of some of the Committees has changed; and these changes are highlighted in each of the individual Committee Reports. In addition, as mentioned on page 58, the Company has established a new Technical Committee, which is led by John Winterman. Its activities will be reported in next year's Annual Report.

I look forward to an active year in 2020 for the Committee.

Martin Houston
Chairman of the Nomination Committee
8 April 2020

Nomination Committee membership

The Nomination Committee comprises the Chairman of the Company, the SID and the Chief Executive. Both the Chairman and SID are deemed independent. Appointment dates and attendance at scheduled meetings are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox[1]	8 September 2016	5/5
Martin Houston[2]	1 October 2019	2/2
Amjad Bseisu	22 February 2010	7/7
Helmut Langanger[3]	16 March 2010	7/7
Howard Paver[4]	15 October 2019	1/1

1 Jock Lennox retired from the Board on 30 September 2019
2 Martin Houston joined the Board and the Committee on 1 October 2019
3 Helmut Langanger retired from the Board on 31 March 2020
4 Howard Paver joined the Board on 1 May 2019 and joined the Committee on 15 October 2019

A Nomination Committee sub-Committee was established to appoint a new Chair of the Board. It was comprised of Helmut Langanger (Chairman), Laurie Fitch, Carl Hughes and Amjad Bseisu.

Nomination committee report continued

Main responsibilities

The core work of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, expertise and experience in order to support the strategy of the Company. Currently, the Board consists of six Non-Executive Directors and two Executive Directors, who collectively bring a diverse mix of skills and experience to the Company and collaborate to provide strong leadership.

The main responsibilities of the Committee are to:

- Review the size, structure and composition (including the skills, experience, independence, knowledge and diversity) of the Board and its Committees in order to recommend changes to the Board;
- Ensure the orderly succession of Executive Directors, Non-Executive Directors and executive and senior management;
- Identify, evaluate and recommend candidates for appointment or reappointment as Directors or Company Secretary, taking into account the benefits of diversity on the Board, including gender, social and ethnic backgrounds, cognitive and personal strengths and the balance of knowledge, skills and experience required to serve the Board; and
- Review the outside directorships/commitments of Non-Executive Directors.

The Nomination Committee's full terms of reference can be found on the Company's website, www.enquest.com, under Corporate Governance.

Appointment of Non-Executive Directors

We apply a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. For the appointments of Howard Paver and Martin Houston, the Company used an external search firm, Spencer Stuart, which has no connection with the Company. The Committee actively considers Board diversity as part of its thorough review of each candidate, including the balance of skills, knowledge and level of independence they would bring to the Board, and screens for potential conflicts of interest. The Committee also gives careful consideration to other existing commitments a candidate may have and whether they will be able to devote the appropriate amount of time in order to fully meet what is expected of them. Once the Committee has identified a suitable candidate, a recommendation is made to the Board for appointment.

Committee activities during the year

The Nomination Committee met seven times in 2019. Its key activities included:

Structured Board succession planning

- The search for a new Chairman was initiated early in 2019, and a Nomination sub-Committee, led by Helmut Langanger, was established accordingly. The sub-Committee reviewed potential candidates and met with each of those shortlisted to establish their suitability to lead the Board of EnQuest. After a robust selection process, it was recommended that Martin Houston be appointed as Chairman of the Board, given his extensive senior management and industry experience. The Board agreed to the proposal and as a result, Martin Houston was appointed on 1 October 2019.
- As stated in the Annual Report last year, Howard Paver was appointed as an independent Non-Executive Director with effect from 1 May 2019. As previously highlighted, Howard has since been appointed as SID of the Company. The search for a SID was conducted internally as it was considered that, on this occasion, an external search was not considered appropriate because the Company had obtained a good appreciation of the current external candidate pool during recent appointments to the Board.
- On the Chairman's appointment and following a review of the composition of the Board, it was agreed that, given the retirement of Helmut Langanger from the Board, a further Director, with extensive financial and capital markets experience, would be an asset to the Company given the strong technical skills of a number of the current Board members. Spencer Stuart has been selected to lead the search.

Development and employee succession planning

The Board and Nomination Committee remain satisfied that the individuals currently fulfilling key executive and senior management positions in the Group have the requisite depth and breadth of skills, knowledge and experience to ensure that orderly succession to the Board and Executive Committee can take place. Over the course of the year the Committee has considered executive and senior management development, which has been conducted via workshops and development programmes across all locations and has also included invitations to Board dinners which are held prior to each Board meeting. Succession planning is regularly discussed. The Committee has continued to develop the process for encouraging and supporting high potential employees via a structured programme, as well as more informal activities such as invitations to breakfast meetings hosted by Directors.

Annual evaluation

Each year, the Board is required to carry out an evaluation of its own effectiveness as required by the Code. As the 2018 review was carried out by an external adviser, it was agreed that the Chairman would conduct an internal review for 2019. The process consisted of a structured questionnaire circulated to Directors and subsequently discussed with them, individually and collectively, by the Chairman. The key themes that had arisen from the 2018 process and which remained relevant for the 2019 review included:

- Succession planning and Board composition;
- Board governance processes;
- Board performance and strategy; and
- Employee culture and Values.

The results of the evaluation were discussed at the January 2020 Board meeting whereby it was concluded that the Board, its Committees and individual Directors remained well governed and acted in a positive and collaborative manner. It was agreed that the following themes arising from the evaluation would be addressed over the course of the year:

- Continued implementation of changed protocol for Board papers and presentation;
- Monitoring of reorganised Committee memberships;
- Progress of Technical Committee activities; and
- Environment, Social and Governance considerations.

The evaluation also identified a number of topics for the Board to address during the course of 2020 in areas such as strategy, organisational excellence, target setting and climate change. Full Board discussions and subsequent actions are being carried out in a structured programme through 2020.

There was no performance review for the Chairman in 2019. As Jock Lennox stepped down from the role on 30 September 2019 and Martin Houston was appointed on 1 October 2019, a performance review was not deemed necessary.

Re–election to the Board

Following a review of the effectiveness of the Board, the Nomination Committee confirms that it is satisfied with both the performance and the time commitment of each Director throughout the year. The Committee also remains confident that each of them is in a position to discharge their duties to the Company in the coming year and that together they continue to bring the necessary skills required to the Board. Detailed biographies for each Director, including their skills and external appointments, can be found on pages 54 to 55.

Priorities for the coming year

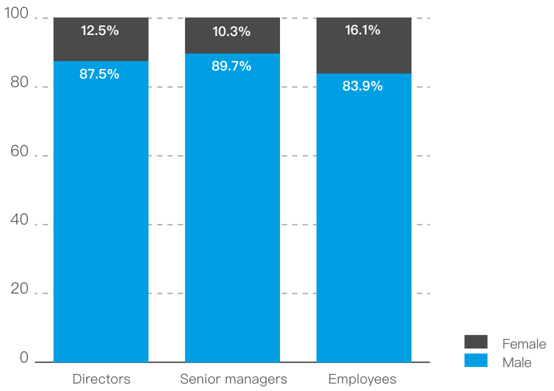
As well as addressing those issues highlighted in the annual evaluation, the main focus of the Committee in 2020 will be to ensure that the composition of the Board continues to complement the requirements of the Company and that succession planning of the Executive Directors, executive and senior management and development planning for high–potential individuals within the Company ensures that the Company's organisation has both the necessary capacity and capabilities in delivering its principal activities.

Boardroom diversity

The Board's continued policy is that we will work hard to recruit from a diverse background of candidates, not just in relation to gender, and appoint the best candidate available for the job on merit and against objective criteria. The objective of the policy is to have the most effective Board possible so that it is able to discharge its duties and responsibilities. We continue to seek to strive for the appropriate balance of the Board as we progress our succession planning.

In March 2019, the Board agreed an EnQuest–wide Diversity and Inclusion Policy; this aligns with the Company's Values which incorporate respect and openness and appreciates the diversity of all our employees, recognising that those from with different backgrounds, experience and abilities can bring fresh ideas, perspectives and innovation to improve our business and working practices.

The chart below illustrates gender breakdown among our Directors and workforce as at 31 December 2019.



Senior management and total employee figures include EnQuest's employees in Dubai, Malaysia and the UK.

Safety and risk committee report

EnQuest aims for the highest standards of HSEA and the Committee will continue to ensure that the Group strives for continual improvement.

Philip Holland
Chairman of the Safety and Risk Committee

Dear fellow shareholder

On behalf of the Board and my fellow Committee members, I am pleased to present EnQuest's Safety and Risk Committee Report in what has been a productive year for the Committee. As outlined in this report, throughout 2019 we have continued to undertake detailed analysis of specific risk areas and associated controls and paid particular attention to enhancing performance monitoring and reporting and continuous improvement planning.

The Board also agreed during the year to reaffirm the Group's robust commitment to Health, Safety, Environment and Assurance ('HSEA'), renaming the Risk Committee the Safety and Risk Committee and enhancing the Committee's terms of reference. This recognises that EnQuest aims for the highest standards for HSEA and the Committee will continue to ensure that the Group strives for continual improvement such that personal integrity and asset integrity are never compromised and our personnel are not exposed to any danger to life or liberty. This commitment was demonstrated on the Thistle platform, where a precautionary down-man was undertaken based upon the findings from a sub-sea inspection campaign on an unused crude oil storage tank. The action taken demonstrates unequivocally the position that EnQuest takes when it comes to prioritising safety over production. Indeed, HSEA standards and their interaction with the Group's culture remains a priority for the Committee. Accordingly, the Committee is pleased to report that the Group: (i) has further developed HSEA key performance indicators to allow the Committee to obtain more visibility on the Group's HSEA performance; and (ii) is in the process of aligning its HSEA systems and processes between Malaysia and the UK North Sea.

However, throughout 2019, there were many opportunities for us to learn and none more so than the compressor incident on Heather. Our internal investigation had identified areas for improvement and we have shared these learnings across the Group to ensure that we do not have a recurrence of this type of event, with particular focus on hydrocarbon release prevention.

The Committee has determined that the Group continues positively to evolve its processes for identifying and managing risks and mitigating their impact, which in turn supports the Group in achieving its strategy. Further, undertaking in-depth analysis of specific risk areas (as described below) has allowed the Committee to mitigate any potential deficiencies and refine existing controls for reviewed risk areas. The Committee remains confident that these exercises will be critical in achieving excellence and robustness in the Group's risk management processes.

The report also looks ahead to those matters which I expect that the Committee will be considering in the forthcoming year, including further detailed analyses of key risk areas, post-investment appraisals and continuous improvement in the evolution and application of our Risk Management Framework.

Philip Holland
Chairman of the Safety and Risk Committee
8 April 2020

Safety and Risk Committee responsibilities

The main responsibilities of the Committee are to:

- Undertake in–depth analysis of specific risks, including emerging risks, in relation to the Company and consider existing and potential new controls;
- Support the implementation and progression of the Group's Risk Management Framework;
- Review the Group's HSEA performance and the effectiveness of its policies and guidelines in managing HSEA risks and reporting; and
- Conduct detailed reviews of key non–financial risks not reviewed within the Audit Committee.

The Committee's full terms of reference can be found on the Company's website, www.enquest.com, under Corporate Governance.

Safety and Risk Committee membership

Membership of the Committee and attendance at the four meetings held during 2019 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Philip Holland[1]	25 January 2016	3/4
Laurie Fitch	8 January 2018	4/4
Carl Hughes	1 January 2017	4/4
John Winterman[2]	7 September 2017	3/3

Notes
1 Philip Holland was unable to attend the December meeting due to prior commitments conflicting with a rescheduled date for the Committee meeting
2 John Winterman stepped down from the Committee on 15 October 2019 to become Chair of the Technical Committee

Committee activities during the year

During 2019, the Committee:

- Drove continued refinements to the Group's Risk Management Framework, including enhanced performance monitoring and reporting and continuous improvement planning;
- Reviewed the Group Risk Register, assurance map and risk report (focusing on the most critical risks and emerging and changing risk profiles. This included obtaining assurance that the risks associated with climate change are appropriately assessed and incorporated within relevant risk areas);
- Undertook a post–investment appraisal of Scolty/Crathes and applied learnings from the appraisal to other projects, including the Dunlin Bypass, and a review of Kraken to monitor and review progress and identify any areas for further improvement;
- Undertook a deep–dive of 'cessation of production and decommissioning' risks (and identified improvements to controls, for example, in relation to the resourcing structure for the relevant function) and the HSEA major accident hazard barrier model;
- Reviewed the status of oil price, external and portfolio risks. This included the impact of climate change risks in relation to the Group's principal risks, continuing the Group's progress in assessing climate change risks in relation to the Company's future plans and strategy;
- Received routine updates on HSEA (including reviewing the Group's performance along with ongoing and planned HSEA activities) and cyber–security risk; and
- Developed its terms of reference to affirm and strengthen its role in relation to HSEA.

For further information on these risks, please see the Risks and Uncertainties section on pages 44 to 53.

Priorities for the coming year

In 2020, the Committee is continuing its focus on undertaking detailed analyses of key risk areas, including those relating on HSE, culture and failure to deliver on business targets. It will also consider whether 'climate change' should be recognised and managed as a discrete, 'principal risk' as distinct from the Company's current approach, which recognises the impacts and actions relevant to climate change across its current principal risk areas. Ongoing assessment of existing and emerging risks and associated controls in place will ensure that the potential effects of climate change, and other related factors, continue to be identified, considered and risk assessed appropriately within the Group's Risk Management Framework.

The Directors of EnQuest present their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2019.

Stefan Ricketts
Company Secretary

Directors

The Directors' biographical details are set out on pages 44 to 53. Martin Houston will offer himself for election at the Annual General Meeting ('AGM') on 21 May 2020, with the other Directors offering themselves for re-election.

Employee engagement

EnQuest operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. Employees are informed about significant business issues and other matters of concern via regular Town Hall meetings, email/electronic communications, as well as face-to-face briefing meetings at business locations. Appropriate consultations take place with employees when business change is undertaken. An Employee Forum, to allow for direct employee engagement with the Board of Directors, was established in early 2019 and information on its activities can be found on page 38. EnQuest offers employees the opportunity to participate directly in the success of the Company and employees are encouraged to invest in the Company through participation in a number of share schemes, such as the Save As You Earn ('SAYE') Share Scheme. 72% of eligible employees currently participate in SAYE.

Substantial interests in shares

The table below shows the holdings in the Company's issued share capital, which had been notified to the Company in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules ('DTR'):

Name	Number of Ordinary shares held at 31 December 2019	% of issued share capital held at 31 December 2019[2]	Number of Ordinary shares held as at 28 February 2020	% of issued share capital held as at 28 February 2020[2]
Bseisu consolidated interests[1]	178,127,658	10.50	178,127,658	10.50
Aberforth Partners LLP	125,824,942	7.42	126,094,942	7.44
Baillie Gifford & Co Ltd	81,505,905	4.81	83,914,891	4.95
Hargreaves Lansdown Asset Management	81,248,325	4.79	77,350,148	4.56
Dimensional Fund Advisors	73,059,924	4.31	73,660,373	4.34
Schroder Investment Management	61,557,591	3.63	70,076,196	4.13
BlackRock Inc.	56,232,927	3.32	59,298,501	3.50
Signal Capital Partners LLP	51,036,396	3.01	51,036,396	3.01

Notes:
1 161,380,583 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 16,579,528 shares are also held by The Amjad & Suha Bseisu Foundation and 167,547 shares are held directly by Amjad Bseisu
2 Rounding applies

Directors' interests

The interests of the Directors in the Ordinary shares of the Company are shown below:

Name	At 31 December 2019	At 8 April 2020
Amjad Bseisu[1]	178,127,658	178,127,658
Helmut Langanger	700,000	700,000
Laurie Fitch	70,000	70,000
Martin Houston	500,000	500,000
Carl Hughes	28,571	28,571
Philip Holland	154,760	154,760
Howard Paver	—	—
Jonathan Swinney	290,208	762,894
John Winterman	28,571	28,571

Note:
1 161,380,583 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 16,579,528 shares are also held by The Amjad & Suha Bseisu Foundation and 167,547 shares are held directly by Amjad Bseisu

Directors' indemnity provisions

Under the Company's Articles, the Directors of the Company may be indemnified out of the assets of the Company against certain costs, charges, expenses, losses or liabilities which may be sustained or incurred in or about the execution of their duties. Such qualifying third-party indemnity provision remains in force as at the date of approving the Directors' Report. Such indemnities are in a form consistent with the limitations imposed by law.

Share capital

The Company's share capital during the year consisted of Ordinary shares of £0.05 each ('Ordinary shares'). Each Ordinary share carries one vote. At 31 December 2019, following the issue via a block listing of 1,395,807 Ordinary shares to satisfy the maturity of an employee SAYE award, there were 1,695,801,955 Ordinary shares in issue. All of the Company's issued Ordinary shares have been fully paid up. Further information regarding the rights attaching to the Company's Ordinary shares can be found in note 20 to the financial statements on page 141. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2019 or up to and including 8 April 2020, being the date of this Directors' Report. At the 2020 AGM, shareholders will be asked to renew authorities relating to the issue and purchase of Company shares. Details of the resolutions are contained in the Notice of AGM, which can be found on the Company's website www.enquest/shareholderinformation.

Company share schemes

The trustees of the Employee Benefit Trust ('EBT') did not purchase any Ordinary shares in the Company during 2019 except for 1,395,807 shares which were acquired through the SAYE-related block listing, having been funded by a loan by EnQuest Britain Limited of £180,000. At year end, the EBT held 2.55% of the issued share capital of the Company (2018: 4.32%) for the benefit of employees and their dependants. The voting rights in relation to these shares are exercised by the trustees.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a General Meeting of shareholders. The Company's Articles, found on the Company's website www.enquest.com/corporate-governance, contain provisions on the appointment, retirement and removal of Directors, along with their powers and duties. While there are no specific restrictions, the transfer of shares in the Company is also provided for in the Articles.

Annual General Meeting

The Company's AGM will be held at 5th Floor, Cunard House, 15 Regent Street, London, SW1Y 4LR on 21 May 2020. Formal notice of the AGM, including details of special business, is set out in the Notice of AGM which accompanies this Annual Report and Accounts and is available on the Company's website at www.enquest.com.

Registrars

In connection with the Ordinary shares traded on the London Stock Exchange, the Company's share registrar is Link Asset Services. For the Ordinary shares traded on NASDAQ OMX Stockholm, the Company's share registrar is Euroclear Sweden. Full details of both registrars can be found in the Company Information section on page 169.

Change of control agreements

The Company (or other members of the Group) are not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid, except in respect of:

(a) the senior facility agreement, which includes provisions that, upon a change of control, permit each lender not to provide certain funding under that facility and to cancel its commitment to provide that facility and to require prepayment of the credit which may already have been advanced to the Company and the other borrowers under the facility;

(b) the working capital facility, originally dated 1 December 2017, in respect of the operation of the Sullom Voe Terminal, which includes provisions that upon a change of control, permit the lender not to provide certain funding under that facility and to cancel its commitment to provide that facility and to require prepayment of the credit which may already have been advanced to the borrower (EnQuest Heather Limited) under the facility;

(c) the security trust and waterfall deed, originally dated 24 January 2017, in respect of the transaction regarding the Magnus assets with BP Exploration Operating Company Limited, which includes provisions that, upon a change of control, the security trustee in favour of BP Exploration Operating Company Limited may take control of the accounts relating to the Magnus assets;

(d) the Company's Euro Medium Term Note Programme (under which the Company has in issue Euro Medium Term Notes originally due 2022 with an aggregate nominal amount of approximately £177.9 million, including capitalised interest, at the date of this report), pursuant to which, if there is a change of control of the Company, a holder of a note has the option to require the Company to redeem such note at its principal amount, together with any accrued interest thereon; and

(e) under the indenture governing the Company's high yield notes originally due 2022, which at the date of this report have an aggregate nominal amount of approximately $746.1 million, including capitalised interest, if the Company undergoes certain events defined as constituting a change of control, each holder of the high yield notes may require the Company to repurchase all or a portion of its notes at 101% of their principal amount, plus any accrued and unpaid interest.

Political donations

At the 2019 AGM, a resolution was passed giving the Company authority to make political donations and/or incur political expenditure as defined in Sections 362 to 379 of the Companies Act 2006. Although the Company does not make and does not intend to make political donations or to incur political expenditure, the legislation is very broadly drafted and may catch such activities as funding seminars or functions to which politicians are invited, or may extend to bodies concerned with policy review, law reform and representation of the business community that the Company and its subsidiaries might wish to support.

No political donations were made in 2019 by the Company or any of its subsidiaries.

Directors' report continued

Dividends
The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the immediate future. However, the Board anticipates reviewing the policy when appropriate, the timing of which will be subject to the earnings and financial condition of the Company meeting the conditions for dividend payments which the Company has agreed with its lenders and such other factors as the Board of Directors of the Company consider appropriate, including the Company's expected future cash flows.

Directors' statement of disclosure of information to auditor
The Directors in office at the date of the approval of this Directors' Report have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Responsibility statements under the DTR
The Directors who held office at the date of the approval of the Directors' Report confirm that, to the best of their knowledge, the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and the Directors' Report, Operating Review and Financial Review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent auditor
Following a tender process, the Audit Committee recommended to the Board that Deloitte be appointed as auditor of the Company the financial year ended 2020 and Deloitte expressed its willingness to act as such. An ordinary resolution to appoint Deloitte as auditor of the Company and authorising the Directors to set its remuneration will be proposed at the forthcoming AGM. Information on the Company's policy on audit tendering and rotation and also the 2019 tender process is found on page 69.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 53. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 28 to 33. The Board's assessment of going concern and viability for the Group is set out on pages 32 to 33. In addition, note 27 to the financial statements on pages 151 to 153 includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Greenhouse gas ('GHG') emissions
EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. These sources fall within the EnQuest consolidated financial statements. EnQuest has used the principles of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), ISO 14064–1 and data gathered to fulfil the requirements under the 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019'. The Streamlined Energy & Carbon Reporting ('SECR') report includes assets which are in the operational control of EnQuest.

		2019		2018		2015[1]
SECR reporting year		SECR (Operational Control) Scope	ISO–14064 Verified Scope	SECR (Operational Control) Scope	ISO–14064 Verified Scope	Baseline
Scope 1 (direct combustion) and Scope 2 (consumed electricity and steam) emissions	Total Emissions tCO_2e^2	1,511,650	1,134,581	1,802,435	1,298,303	1,149,743
	Extraction Emissions tCO_2e^2	1,404,788	1,027,719	1,661,565	1,157,432	869,692
	Extraction Intensity ratio $kgCO_2e/boe^2$	40.55	36.27	50.51	43.14	45.65
	Terminal (SVT) Emissions $tCO_2e^{2/3}$	106,862	106,862	n/a	140,870	280,051
	Terminal (SVT) Intensity ratio $kgCO_2e/boe^2$ throughput[3]	3.47	3.47	n/a	4.65	6.87

Notes:
1 When it is considered that the portfolio of assets under a Company's operational control has changed significantly, the baseline, which is based on Verified Scope data, is recalculated to an appropriate comparative period for which good data is available. As such, the baseline is currently 2015
2 tCO_2e = tonnes of CO_2 equivalent. $kgCO_2e$ = kilogrammes of CO_2 equivalent. BOE = barrel of oil equivalent. EnQuest is required to report the aggregate gross (100%) emissions for those assets over which it has operational control. As such, the extraction intensity ratio is calculated by taking the aggregate gross (100%) reported Scope 1 and 2 $kgCO_2e$ from those assets divided by the aggregate gross (100%) hydrocarbon production from the same assets. The throughput ratio is calculated by taking the aggregate gross (100%) reported Scope 1 and 2 $kgCO_2e$ from SVT divided by the aggregate total throughput at the terminal
3 Note on Uncertainty: The uncertainty for total emissions within the verified scope is calculated as 3%. SVT emissions in isolation are not with 5% due to the steam and electricity meters for SVT not having supportable uncertainties

Emissions relating to Voluntary Scope 3 (Helicopter Flights UK Operations) have not been reported in 2019 with the Group's resources focused on current operations and associated infrastructure

MCR (Operational Control) Scope

EnQuest has a number of financial interests, e.g. joint ventures and joint investments, as covered in this Annual Report for which it does not have operational control. In line with MCR and ISO 14064–1 guidance, only those assets where EnQuest has operational control greater than 50% are captured within the MCR reporting boundary. Where EnQuest has less than 50% operational control of an asset, it is not included within the MCR reporting boundary. Hence, the MCR operational control boundary is different to EnQuest's financial boundary. In line with MCR guidance, this is fully disclosed.

ISO–14064 Verified Scope

EnQuest has voluntarily opted to have emissions reported within the MCR scope verified to the internationally recognised ISO 14064–1 standard by a UKAS accredited verification body. This increases the robustness of the reported emissions and provides the reader with more confidence in the stated figures. This goes beyond the minimum requirements of the MCR guidance. Some data for the Group's Malaysian assets (Seligi and associated land–based offices), do not currently meet ISO 14064–1 requirements, and so are excluded from the ISO 14064–1 reported figures. Efforts are being made to improve data quality with the objective of including these assets within the ISO 14064–1 verified scope in future years.

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Further disclosures

Further disclosure requirements as required by the Companies Act 2006, Schedule 7 of the Large and Medium–sized Companies and Groups (Accounts and Reports) Regulations 2008, The Companies (Miscellaneous Reporting) Regulations 2018 and the FCA's Listing Rules and DTR are found on the following pages of the Company's Annual Report and are incorporated into the Directors' Report by reference:

Disclosure	Page number
Future developments	13
Acquisitions and disposals	156 to 158
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The Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 8 April 2020.

Stefan Ricketts
Company Secretary

Statement of Directors' Responsibilities for the Group Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements, International Accounting Standard 1 ('IAS') requires that the Directors:
- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, the Directors are responsible for establishing arrangements to evaluate whether the information presented in the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, and making a statement to that effect. This statement is set out on page 66 of the Annual Report.

Independent Auditor's Report

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

Our opinion on the financial statements

In our opinion:

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

What we have audited

EnQuest PLC's financial statements comprise:

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

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

Basis for opinion

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

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

Material uncertainty related to going concern

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

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

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

Independent Auditor's Report continued

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

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

Key observations communicated to the Audit Committee

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

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

Conclusions relating to principal risks, going concern and viability statement

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

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

Overview of our audit approach

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

Key audit matters

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

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

Independent Auditor's Report continued

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

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

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

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

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

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

An overview of the scope of our audit

Tailoring the scope

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

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

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

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

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

Involvement with component teams

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

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

Independent Auditor's Report continued

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

Our application of materiality

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

Materiality

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

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

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

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

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

Performance materiality

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

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

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

Reporting threshold

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable,** set out on page 66 — the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting,** set out on pages 64 to 70 — the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on pages 60 to 63 — the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Independent Auditor's Report continued

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

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

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

Other matters we are required to address

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

Use of our report

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

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

8 April 2020

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

Group Statement of Comprehensive Income

For the year ended 31 December 2019

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

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

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

Group Balance Sheet

At 31 December 2019

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

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

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

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2019

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

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

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

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

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

Notes to the Group Financial Statements

For the year ended 31 December 2019

1. Corporate information

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

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

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

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

2. Summary of significant accounting policies

Basis of preparation

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

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

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

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

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

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

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

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

The quarterly liquidity covenant in the facility (the 'Liquidity Test') requires that the Group has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date which is 1 October 2021. The Liquidity Test assumptions include a price deck of the average forward curve oil price, minus a 10% discount, of 15 consecutive business days starting from approximately in the middle of the previous quarter. The Base case uses $45/bbl for the remainder of 2021, with a longer-term price assumption of $60/bbl. Under these prices the Group forecasts no breaches in the Liquidity Test. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 15% on Base case prices across all periods, the Group would breach this covenant, prior to any mitigations such as further cost reductions or other funding options. Given the extreme volatility in current oil prices, there is a risk of a potential covenant breach, which would therefore require a covenant waiver to be obtained. The Directors are confident that obtaining waivers from the facility providers would be forthcoming. However, the risk of not obtaining a waiver represents a material uncertainty that may cast doubt upon the Group's ability to continue to apply the going concern basis of accounting.

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

New standards and interpretations

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

IFRS 16 Leases

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

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

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

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

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

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

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

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

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

2. Summary of significant accounting policies continued

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

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

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

IFRS 9 Financial Instruments

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

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

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

Standards issued but not yet effective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies continued

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

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

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

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

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

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

Decommissioning provision

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

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

Deferred taxation

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

Key assumptions used in calculations

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

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

3. Segment information

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

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

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

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

Reconciliation of profit/(loss):

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

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

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

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

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

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

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

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

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

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

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

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

5. Revenue and expenses

(a) Revenue and other revenue

Accounting policy

Revenue from contracts with customers

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

Sale of crude oil, gas and condensate

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

Tariff revenue for the use of Group infrastructure

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

Other revenue

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

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

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

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

Disaggregation of revenue from contracts with customers

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

5. Revenue and expenses continued

Contract balances

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

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

(b) Cost of sales

Accounting policy

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

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

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

(c) General and administration expenses

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

(d) Other income

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

(e) Other expenses

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

(f) Staff costs

Accounting policy

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

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

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

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

(g) Auditor's remuneration

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

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

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

6. Finance costs/income

Accounting policy

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

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

7. Income tax

(a) Income tax

Accounting policy

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

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

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

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

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

Production taxes

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

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

Investment allowance

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

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

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

(b) Reconciliation of total income tax charge

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

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

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

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

Reconciliation of net deferred tax assets/(liabilities)

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

(d) Tax losses

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

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

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

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

(e) Changes in legislation

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

8. Earnings per share

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

Basic and diluted earnings per share are calculated as follows:

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

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

9. Dividends paid and proposed

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

10. Property, plant and equipment

Accounting policy

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

Cost

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

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

Development assets

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

Carry arrangements

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

Borrowing costs

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

Depletion and depreciation

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

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

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

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

10. Property, plant and equipment continued

Impairment of tangible and intangible assets (excluding goodwill)

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

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

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

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

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

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

Impairment testing of oil and gas assets

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

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

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

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

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

11. Goodwill

Accounting policy

Cost

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

Impairment of goodwill

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

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

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

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For the year ended 31 December 2019

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

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

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

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

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

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

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

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

13. Inventories

Accounting policy

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

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

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

14. Cash and cash equivalents

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

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

Short-term deposits

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

Joint venture accounts

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

Operational accounts

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

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

Restricted cash

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

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For the year ended 31 December 2019

15. Financial instruments and fair value measurement

Accounting policy

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

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

Financial assets

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

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

Financial assets at amortised cost

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

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

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

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

Impairment of financial assets

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

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

Financial liabilities

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

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

Financial liabilities at amortised cost

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

Financial instruments at fair value through profit or loss

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

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

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

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

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

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

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

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15. Financial instruments and fair value measurement continued

Fair value hierarchy

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

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

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

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

16. Trade and other receivables

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

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

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

17. Trade and other payables

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

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

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

18. Loans and borrowings

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

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

Credit facility

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

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

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

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

Sculptor Capital facility (previously Oz Management facility)

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

Crude oil prepayment transaction

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

SVT working capital facility

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

Tanjong Baram project financing facility

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

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For the year ended 31 December 2019

18. Loans and borrowings continued

Trade creditor loan

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

Bonds

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

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

High yield bond

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

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

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

Retail bond

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

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

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

19. Other financial assets and financial liabilities

(a) Summary as at year end

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

(b) Income statement impact

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

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

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

(c) Commodity contracts

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

19. Other financial assets and financial liabilities continued

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

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

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

(d) Foreign currency contracts

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

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

(e) Carbon contracts

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

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

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

(f) Other receivables and liabilities

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

Other receivables

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

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

20. Share capital and premium

Accounting policy

Share capital and share premium

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

Merger reserve

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

Retained earnings

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

Share-based payments reserve

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

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

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

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

21. Share-based payment plans

Accounting policy

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

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

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

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

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

21. Share-based payment plans continued

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

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

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

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

Deferred Bonus Share Plan ('DBSP')

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

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

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

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

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

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

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

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

Restricted Share Plan ('RSP')

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

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

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

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

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

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

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

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

Performance Share Plan ('PSP')

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

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

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

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

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

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

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

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

Sharesave Plan

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

21. Share-based payment plans continued

The fair values of Sharesave awards granted to employees during the year, based on the defined market value on the date the invitation for the scheme opens, are shown below:

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

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

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

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

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

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

Executive Director bonus awards

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

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

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

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

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

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

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

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

22. Contingent consideration

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

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

75% Magnus acquisition contingent consideration

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

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

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

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

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

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

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

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

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

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

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

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

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

Decommissioning provision

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

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

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

Cost recovery provision

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

Surplus lease provision

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

Other provisions

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

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

24. Leases

Accounting policy applicable from 1 January 2019

As a lessee

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

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

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

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

24. Leases continued

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

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

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

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

As a lessor

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

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

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

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

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

Accounting policy before 1 January 2019

Under IAS 17, the determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

As a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Lease charter payment credits, arising from the non-performance of the leased asset, are recognised as an operating expense in the income statement for the period to which they relate.

Some leases held by the Group contain extension options, exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options and reassesses if there is a significant event or significant changes in circumstances within its control.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

As a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Right-of-use assets and lease liabilities
Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets $'000	Lease liabilities $'000
As at 31 December 2018	**–**	**708,950**
Finance lease reclassification	**690,742**	**–**
IFRS 16 recognition adjustment	**60,527**	**60,527**
Additions in the period	**24,587**	**24,587**
Depreciation expense	**(90,657)**	**–**
Interest expense	**–**	**55,686**
Payments	**–**	**(135,125)**
Foreign exchange movements	**–**	**1,541**
As at 31 December 2019	**685,199**	**716,166**
Current		**101,348**
Non-current		**614,818**
		716,166

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of 7.1 years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	**90,657**
Interest expense on lease liabilities	**55,689**
Rent expense — short-term leases	**2,646**
Rent expense — leases of low-value assets	**28**
Rent expense — variable lease payments not included in measurement of lease liabilities	**–**
Total amounts recognised in profit or loss	**149,020**

Amounts recognised in statement of cash flows

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Total cash outflow for leases	**135,125**	144,820

Leases as lessor (IFRS 16)
The Group sub-leases part of Annan House, the Aberdeen office. The sub-lease is classified as an operating lease, as all the risks and rewards incidental to the ownership of the right-of-use asset are not all substantially transferred to the lessee. Rental income recognised by the Group during 2019 was $1.3 million (2018: $1.1 million).

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24. Leases continued

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2019 $'000	2018 $'000
Less than one year	**1,635**	1,540
One to two years	**1,762**	1,635
Two to three years	**1,762**	1,762
Three to four years	**1,762**	1,762
Four to five years	**1,762**	1,762
More than five years	**1,147**	2,909
Total undiscounted lease payments	**9,830**	11,370

25. Commitments and contingencies

Commitments

At 31 December 2019, the Group had capital commitments amounting to $17.9 million (2018: $15.7 million).

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. Other than as discussed below, the Company is not, nor has been during the past 12 months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on the Company's and/or the Group's financial position or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

The Group is currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately $15.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

26. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 28 to these Group financial statements.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2019 (2018: none).

Share subscription

In 2018, subscription for new Ordinary shares pursuant to the rights issue (see note 20) at the issue price of £0.21 per share:

- Double A Limited ('Double A'), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the rights issue, subscribing for 43,849,727 shares;
- Double A participated in the rump placing for 5,000,000 shares; and
- Directors and key management personnel took up their entitlement in the rights issue, subscribing for 382,273 shares.

Office sub-lease

During the year ended 31 December 2019, the Group recognised $0.1 million (2018: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management, a company where 72% of the issued share capital is held by Amjad Bseisu.

Contracted services

During the year ended 31 December 2018, the Group obtained contracting services from Influit UK Production Solutions for a value of $0.06 million. No services were provided during 2019. Amjad Bseisu has an indirect interest in Influit UK Production Solutions.

Compensation of key management personnel
The following table details remuneration of key management personnel of the Group. Key management personnel comprise of Executive and Non-Executive Directors of the Company and the Executive Committee.

	2019 $'000	2018 $'000
Short-term employee benefits	**7,584**	7,052
Share-based payments	**1,245**	1,300
Post-employment pension benefits	**199**	218
	9,028	8,570

27. Risk management and financial instruments

Risk management objectives and policies
The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short-term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of the financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure programme.

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2019 and 2018, using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk — oil prices
The Group is exposed to the impact of changes in Brent oil prices on its revenues and profits generated from sales of crude oil.

The Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 60% in the following 12-month period and 50% in the subsequent 12-month period.

Details of the commodity derivative contracts entered into during and open at the end of 2019 are disclosed in note 19.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price, on the fair value of derivative financial instruments, with all other variables held constant.

	Pre-tax profit		Total equity	
	+$10/bbl increase $'000	-$10/bbl decrease $'000	+$10/bbl increase $'000	-$10/bbl decrease $'000
31 December 2019	**(22,894)**	**20,500**	**(22,894)**	**20,500**
31 December 2018	(40,310)	45,146	(40,310)	45,146

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency and the retail bond which is denominated in Sterling. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 6% (2018: 3%) of the Group's sales and 95% (2018: 42%) of costs (including operating and capital expenditure and general and administration costs) are denominated in currencies other than the functional currency. In the prior year, the accounting entries for the Magnus acquisition were in US Dollars, therefore reducing the ratio of non-US Dollar denominated costs.

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures.

The following table summarises the sensitivity to a reasonably possible change in the US Dollar to Sterling foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact in equity is the same as the impact on profit before tax. The Group's exposure to foreign currency changes for all other currencies is not material:

	Pre-tax profit	
	+$10% rate increase $'000	-$10% rate decrease $'000
31 December 2019	**(21,893)**	**21,893**
31 December 2018	(41,852)	41,852

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27. Risk management and financial instruments continued

Credit risk

Credit risk is managed on a Group basis. Credit risk in financial instruments arises from cash and cash equivalents and derivative financial instruments where the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments (see maturity table within liquidity risks below). For banks and financial institutions, only those rated with an A-/A3 credit rating or better are accepted. Cash balances can be invested in short-term bank deposits and AAA-rated liquidity funds, subject to Board-approved limits and with a view to minimising counterparty credit risks.

In addition, there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas companies and at 31 December 2019 there were $2.4 million of trade receivables past due (2018: $5.0 million), $0.1 million of joint venture receivables past due (2018: $1.6 million) and $nil (2018: $nil) of other receivables past due but not impaired. Subsequent to year end, $2.4 million of these outstanding balances have been collected (2018: $4.6 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	2019 $'000	2018 $'000
Less than 30 days	**381**	4,649
30—60 days	**60**	16
60—90 days	**—**	8
90—120 days	**8**	—
120+ days	**2,056**	1,933
	2,505	6,606

At 31 December 2019, the Group had four customers accounting for 84% of outstanding trade receivables (2018: three customers, 81%) and two joint venture partners accounting for 26% of outstanding joint venture receivables (2018: two joint venture partners, 41%).

Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of its borrowings. Specifically, the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants. At 31 December 2019, $68.2 million (2018: $68.4 million) was available for drawdown under the Group's credit facility (see note 18).

The following tables detail the maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis and include future interest payments.

The payment of contingent consideration is limited to cash flows generated from Magnus (see note 22). Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset and there is no exposure to liquidity risk. By reference to the conditions existing at the reporting period end, the maturity analysis of the loan is disclosed below.

Year ended 31 December 2019	**On demand $'000**	**Up to 1 year $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loans and borrowings	**—**	**228,991**	**527,419**	**4,121**	**—**	**760,531**
Bonds[(i)]	**—**	**67,545**	**67,545**	**1,035,022**	**—**	**1,170,112**
Contingent considerations	**—**	**114,152**	**89,607**	**266,563**	**621,929**	**1,092,251**
Obligations under finance leases (IFRS 16)	**—**	**152,306**	**132,294**	**350,492**	**281,915**	**917,007**
Trade and other payables	**—**	**326,035**	**—**	**—**	**46,763**	**372,798**
	—	**889,029**	**816,865**	**1,656,198**	**950,607**	**4,312,699**

Year ended 31 December 2018	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	—	364,135	272,189	546,611	—	1,182,935
Bonds[(i)]	—	34,234	36,521	1,229,314	—	1,300,069
Contingent considerations	—	69,093	116,686	306,528	631,470	1,123,777
Obligations under finance leases (IAS 17)	—	93,169	69,689	243,811	302,282	708,951
Trade and other payables	—	419,855	18,209	—	50,412	488,476
	—	980,486	513,294	2,326,264	984,164	4,804,208

(i) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than $65/bbl for the six months preceding one month before the coupon payment date (see note 18)

The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis. When the amount receivable or payable is not fixed, the amount disclosed has been determined by reference to a projected forward curve at the reporting date.

Year ended 31 December 2019	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	**1,849**	**6,398**	**4,387**	**—**	**—**	**12,634**
Foreign exchange derivative contracts	**—**	**(1,932)**	**—**	**—**	**—**	**(1,932)**
	1,849	**4,466**	**4,387**	**—**	**—**	**10,702**

Year ended 31 December 2018	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	10,069	52,382	1,852	—	—	64,303
Chooser contract	—	249	—	—	—	249
Interest rate swaps	(837)	9,542	—	—	—	8,705
	9,232	62,173	1,852	—	—	73,257

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as in the Group statement of changes in equity.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required.

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, the Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 60% in the following 12-month period and 50% in the subsequent 12-month period. This is designed to reduce the risk of adverse movements in exchange rates and market prices eroding the return on the Group's projects and operations.

The Board regularly reassesses the existing dividend policy to ensure that shareholder value is maximised. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows. Further information relating to the movement year-on-year is provided within the relevant notes and within the Financial Review (pages 28 to 33).

	2019 $'000	2018 $'000
Loans, borrowings and bond[(i)] (A) (see note 18)	**1,633,441**	2,048,498
Cash and short-term deposits (see note 14)	**(220,456)**	(240,604)
Net debt/(cash) (B)	**1,412,985**	1,807,894
Equity attributable to EnQuest PLC shareholders (C)	**559,061**	983,552
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(449,301)**	127,278
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**214,340**	78,195
Gross gearing ratio (A/C)	**2.9**	2.1
Net gearing ratio (B/C)	**2.5**	1.8
Shareholders' return on investment (D/C)	**(80%)**	13%
Shareholders' return on investment excluding exceptionals (E/C)	**38%**	8%

(i) Principal amounts drawn, excludes netting off of fees (see note 18)

Notes to the Group Financial Statements continued
For the year ended 31 December 2019

28. Subsidiaries
At 31 December 2019, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Heather Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited(i)	Intermediate holding company	England	100%
Grove Energy Limited[1]	Intermediate holding company	Canada	100%
EnQuest ENS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS(i)[2]	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited(i)	Leasing	England	100%
EQ Petroleum Sabah Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited(i)	Dormant	England	100%
EnQuest Energy Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EQ Petroleum Production Malaysia Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited[3]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited(i)[4]	Provision of Group manpower and contracting/procurement services for the International business	Jersey	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited(i)	Dormant	England	100%
EnQuest UK Limited(i)	Dormant	England	100%
EnQuest Petroleum Developments Malaysia SDN. BHD(i)[5]	Exploration, extraction and production of hydrocarbons	Malaysia	100%
EnQuest NNS Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest NNS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Advance Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Advance Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Forward Holdings Limited(i)	Intermediate holding company	England	100%
EnQuest Forward Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

The Group has three branches outside the UK (all held by subsidiary undertakings): EnQuest Global Services Limited (Dubai); EnQuest Petroleum Production Malaysia Limited (Malaysia); and EQ Petroleum Sabah Limited (Malaysia).

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, Scotland, AB11 5QP, United Kingdom
4 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
5 c/o TMF, 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

29. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Profit/(loss) before tax		**(729,113)**	93,985
Depreciation	5(c)	**8,207**	5,287
Depletion	5(b)	**525,145**	437,104
Exploration costs impaired/(reversed) and written off	4	**150**	1,407
Net impairment (reversal)/charge to oil and gas assets	4	**812,448**	126,046
Write down of inventory		**14,588**	5,837
Write down of asset	4	**415**	3,602
Loss on fair value of purchase option	4	**–**	1,329
Gain on step acquisition accounting for 25% of Magnus and other interests	4	**–**	(74,345)
Impairment (reversal)/charge to investments	4	**20**	121
Share-based payment charge	5(f)	**5,888**	4,645
Change in contingent consideration	22	**72,685**	14,028
Change in surplus lease provision		**–**	8
Change in decommissioning provision	23	**13,410**	12,617
Change in other provisions		**16,301**	(3,907)
Amortisation of option premiums	19	**(4,936)**	17,208
Unrealised (gain)/loss on commodity financial instruments	5(a)	**65,375**	(97,432)
Unrealised (gain)/loss on other financial instruments	5(b)	**378**	(2,310)
Unrealised exchange loss/(gain)		**15,587**	(21,911)
Net finance (income)/expense		**190,099**	219,191
Operating profit before working capital changes		**1,006,647**	742,510
Decrease/(increase) in trade and other receivables		**(78,056)**	6,844
(Increase)/decrease in inventories		**6,423**	22,255
(Decrease)/increase in trade and other payables		**59,604**	17,020
Cash generated from operations		**994,618**	788,629

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

29. Cash flow information continued

Changes in liabilities arising from financing activities

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
At 1 January 2018	(1,219,675)	(944,875)	(797,933)	(2,962,483)
Adjustment on adoption of IFRS 9	–	(38,117)	–	(38,117)
At 1 January 2018	(1,219,675)	(982,992)	(797,933)	(3,000,600)
Cash movements:				
Cash flows	357,072	–	144,820	501,892
Additions	(175,000)	–	–	(175,000)
Non-cash movements:				
Foreign exchange adjustments	814	11,745	–	12,559
Capitalised PIK	(13,179)	(16,220)	–	(29,399)
Unwinding of finance discount	–	–	(55,837)	(55,837)
Other non-cash movements	(199)	(10,864)	–	(11,063)
Principal reported as at 31 December 2018	**(1,050,167)**	**(998,331)**	**(708,950)**	**(2,757,448)**
Unamortised fees	**3,436**	**8,049**	**–**	**11,485**
Accrued interest	**(3,268)**	**(16,810)**	**–**	**(20,078)**
Carrying value as at 31 December 2018	**(1,049,999)**	**(1,007,092)**	**(708,950)**	**(2,766,041)**
Adjustment on adoption of IFRS 9/IFRS 16	**–**	**16,811**	**(60,527)**	**(43,716)**
At 1 January 2019	**(1,049,999)**	**(990,281)**	**(769,477)**	**(2,809,757)**
Cash movements:				
Repayments of loans and borrowings	**394,025**	**–**	**–**	**394,025**
Repayment of lease liabilities	**–**	**–**	**135,125**	**135,125**
Cash interest paid in year	**64,370**	**67,485**	**–**	**131,855**
Non-cash movements:				
Additions	**–**	**–**	**(24,587)**	**(24,587)**
Unwinding of finance discount	**(67,749)**	**(62,694)**	**(55,686)**	**(186,129)**
Fee amortisation	**(811)**	**(2,591)**	**–**	**(3,402)**
Foreign exchange adjustments	**(1,049)**	**(6,879)**	**(1,541)**	**(9,469)**
Other non-cash movements	**(69)**	**(1,023)**	**–**	**(1,092)**
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**

Reconciliation of carrying value

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
Principal	(661,638)	(971,803)	(716,166)	(2,349,607)
Unamortised fees	2,625	5,572	–	8,197
Accrued interest (note 17)	(2,269)	(29,752)	–	(32,021)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**

30. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method, in accordance with IFRS 3 Business Combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any controlling interest in the acquiree. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 13 Fair Value Measurement. The standard defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly fashion between willing market participants at the measurement date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Finalisation of acquisition fair values, during the measurement period of 12 months from acquisition date, are adjusted against the amounts recognised on acquisition where they qualify as measurement period adjustments.

Where consideration for the acquisition includes a contingent consideration arrangement and is within the scope of IFRS 9, this is recognised as a financial asset or liability at fair value through profit or loss. The contingent consideration is carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss, through 'remeasurements and exceptional items' as the transactions do not relate to the principal activities and day–to–day Business performance of the Group and is presented consistently year–on–year.

Acquisitions in 2018

Acquisition of 75% interest in Magnus oil field and associated interests

On 1 December 2018, EnQuest completed the acquisition from BP of the remaining 75% interest in the Magnus oil field ('Magnus'), an additional 9.0% interest in Sullom Voe Oil terminal and supply facility ('SVT') and other additional interests in associated infrastructure (collectively the 'Transaction assets'), constituting a business. This acquisition followed from the acquisition of initial interests completed in December 2017. The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential.

The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition. The financial results for 2018 include the results of the assets for the one–month period from the acquisition date. Accounts receivable are recognised at gross contractual amounts due, as they relate to large and creditworthy customers. Historically, there has been no significant uncollectible accounts receivable in the Transaction assets.

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment (see note 10)	745,350
Inventory	50,977
Trade and other receivables (see note 16)	2,927
Liabilities	
Trade and other payables (see note 17)	(44,617)
Financial liabilities (see note 19)	(8,370)
Deferred tax liability (see note 7)	(94,634)
Total identifiable net assets	**651,633**
Technical goodwill arising on acquisition	94,633
Purchase option derecognition	(20,970)
Purchase consideration	**725,296**
Purchase consideration transferred:	
Cash transferred	100,000
Deferred consideration: Vendor loan	116,530
Contingent consideration: Future cash flow share arrangement	508,766
Total purchase consideration	**725,296**

Goodwill arising on acquisition

The option to purchase the remaining 75% in Magnus and other interests was included with the acquisition of the initial 25% interest. As at 31 December 2017, the option was recognised as a financial asset of $22.3 million. The option was revalued on exercise on 1 December 2018 to the fair value of the acquisition assets, resulting in a financial asset of $21.0 million. The revaluation of the option in the year resulted in an expense of $1.3 million and has been recognised in the statement of comprehensive income through other income in 'Remeasurements and exceptional items'. The option value captures the ability of EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential and the increase in underlying oil prices during the year.

On acquisition, the option was derecognised as part of the acquisition assets and liabilities. The goodwill of $94.6 million arises principally due to the requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. The assessment of the fair value of property, plant and equipment is based on cash flows after tax. Nevertheless, in accordance with IAS 12 sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, goodwill arises as a technical effect of deferred tax ('technical goodwill'). None of the goodwill recognised will be deductible for income tax purposes.

Notes to the Group Financial Statements continued

For the year ended 31 December 2019

30. Business combinations continued

Fair value of consideration

The consideration for the acquisition of the Transaction assets was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 million deferred consideration financed by BP, which are to be repaid out of future cash flows from the assets. With an effective date of 1 January 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of $116.5 million as at 1 December 2018. The deferred consideration is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the base consideration.

The consideration also included a cash flow sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. The present value of the contingent future cash flow share arrangement over the estimated life of the field resulted in the recognition of contingent consideration of $508.8 million.

The present value of the deferred and contingent profit share consideration is calculated from the future expected cash flows, at a discount rate of 10.0%. These are recognised within contingent consideration (see note 22).

From the date of acquisition to the end of 2018, the Transaction assets contributed $41.7 million of revenue and a $1.2 million gain to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2018, revenue from continuing operations would have been an additional $264.7 million and the profit before tax from continuing operations would have been an additional $103.7 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Fair value uplift

The acquisition of the remaining 75% interest is considered a step acquisition as per IFRS 3 Business Combinations. The property, plant and equipment acquired with the initial 25% has been fair valued as at 1 December 2018, recognising an uplift of $123.9 million to property, plant and equipment and a corresponding deferred tax liability of $49.6 million. The gain on uplift of $74.3 million has been recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

31. Subsequent events

Recent market events has resulted in a fall in oil prices and the forward curve, which has been considered within the groups going concern and viability statement (see note 2). If oil prices remain at or below their current levels for an extended period of time, and/or future forecasts for oil prices are lower than those as at 31 December 2019, this would adversely impact our future financial results. A review of fixed asset carrying amounts will be performed during 2020 as part of our interim impairment review based on the prevailing market conditions. Please refer to note 10 for sensitivity analysis regarding the impairments recorded in 2019.

Statement of Directors' Responsibilities for the Parent Company Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Company Balance Sheet
At 31 December 2019

	Notes	2019 $'000	2018 $'000
Fixed assets			
Investments	3	**1,140,962**	1,378,619
Current assets			
Trade and other receivables			
— due within one year	4	**5,649**	6,442
— due after one year	4	**1,099,722**	1,094,298
Cash at bank and in hand		**8**	480
		1,105,379	1,101,220
Trade and other payables: amounts falling due within one year	6	**(123,083)**	(115,303)
Net current assets		**982,296**	985,917
Total assets less current liabilities		**2,123,258**	2,364,536
Trade and other payables: amounts falling due after one year	7	**(966,231)**	(990,283)
Net assets		**1,157,027**	1,374,253
Share capital and reserves			
Share capital and premium	8	**345,420**	345,331
Merger reserve		**661,817**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(1,085)**	(6,884)
Profit and loss account		**110,732**	89,773
Shareholders' funds		**1,157,027**	1,374,253

The attached notes 1 to 11 form part of these Company financial statements.

The Company reported a loss for the financial year ended 31 December 2019 of $239.7 million (2018: gain of $502.7 million). There were no other recognised gains or losses in the period (2018: $nil).

The financial statements were approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital and share premium $'000	Merger reserve $'000	Other reserve $'000	Share-based payments reserve $'000	Profit and loss account $'000	Total $'000
At 31 December 2017 (as previously reported)	210,402	905,890	40,143	(5,516)	(374,800)	776,119
Adjustment on adoption of IFRS 9	–	–	–	–	(38,117)	(38,117)
Balance as at 1 January 2018	210,402	905,890	40,143	(5,516)	(412,917)	738,002
Profit/(loss) for the year	–	–	–	–	502,690	502,690
Total comprehensive income for the year	–	–	–	–	502,690	502,690
Issue of share capital	128,916	–	–	–	–	128,916
Share-based payment charge	–	–	–	4,645	–	4,645
Shares purchased on behalf of Employee Benefit Trust	6,013	–	–	(6,013)	–	–
At 31 December 2018 (as previously reported)	**345,331**	**905,890**	**40,143**	**(6,884)**	**89,773**	**1,374,253**
Adjustment on adoption of IFRS 9	**–**	**–**	**–**	**–**	**16,579**	**16,579**
Balance as at 1 January 2019	**345,331**	**905,890**	**40,143**	**(6,884)**	**106,352**	**1,390,832**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**(239,693)**	**(239,693)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(239,693)**	**(239,693)**
Issue of share capital	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payment charge	**–**	**–**	**–**	**5,888**	**–**	**5,888**
Shares purchased on behalf of Employee Benefit Trust	**89**	**–**	**–**	**(89)**	**–**	**–**
Impairment of subsidiary undertakings	**–**	**(244,073)**	**–**	**–**	**244,073**	**–**
At 31 December 2019	**345,420**	**661,817**	**40,143**	**(1,085)**	**110,732**	**1,157,027**

Notes to the Financial Statements
For the year ended 31 December 2019

1. Corporate information
The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 8 April 2020.

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company incorporated and registered in England and is the holding company for the Group of EnQuest subsidiaries (together the 'Group').

2. Summary of significant accounting policies
Basis of preparation
These separate financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council. The Company has previously notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

These financial statements are prepared under the historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. The functional and presentation currency of the separate financial statements is US Dollars and all values in the separate financial statements are rounded to the nearest thousand ($'000) except where otherwise stated.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Group accounts.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the parent company. The parent company's accounts present information about it as an individual undertaking and not about its Group.

Going concern
The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and, notwithstanding the material uncertainty as provided in note 2 of the Group financial statements, the Directors have a reasonable expectation that the Group and therefore the Company, will be able to continue in operation and meet its commitments as they fall due over the going concern period. See note 2 of the Group financial statements, for further details.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

Critical accounting estimates and judgements
The management of the Group has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Impairment of investments in subsidiaries
Determination of whether investments have suffered any impairment requires an estimation of the assets' recoverable value. The recoverable value is based on the discounted cash flows expected to arise from the subsidiaries' oil and gas assets, using asset-by-asset life of field projections as part of the Group's assessment for the impairment of the oil and gas assets. The Company's investment in subsidiaries is tested for impairment annually. See Group critical accounting estimates and judgements.

Taxation
The Company recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised, as well as the likelihood of future taxable profits.

Foreign currencies
Transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the statement of comprehensive income.

3. Investments

Accounting policy

Investments in subsidiaries are accounted for at cost less any provision for impairment.

(a) Summary

	2019 $'000	2018 $'000
Subsidiary undertakings	**1,140,951**	1,379,138
Other financial assets at FVPL	**11**	31
Total	**1,140,962**	1,379,169

(b) Subsidiary undertakings

	Subsidiary undertakings $'000
Cost	
At 1 January 2018	1,373,943
Additions	5,194
At 31 December 2018	1,379,138
Additions	**5,886**
At 31 December 2019	**1,385,024**
Provision for impairment	
At 1 January 2018	479,583
Impairment charge/(reversal) for the year	(479,583)
At 31 December 2018	—
Impairment charge/(reversal) for the year	**244,073**
At 31 December 2019	**244,073**
Net book value	
At 31 December 2019	**1,140,951**
At 31 December 2018	1,379,138
At 31 December 2017	894,360

The Company has recognised an impairment of its investment in subsidiary undertakings of $244.1 million (2018: reversal of $479.6 million). The impairment for the year ended 31 December 2019 is attributable primarily to changes to the long-term oil price from $75.0/bbl to $70.0/bbl, revision to reserve profiles (see reserves and resources on page 26) in the Heather/Broom, Thistle/Deveron and the Dons fields, the anticipated cessation of production at Alma/Galia and utilisation of historic tax losses.

Details of the Company's subsidiaries at 31 December 2019 are provided in note 28 of the Group financial statements.

(c) Other financial assets at FVPL

The interest in other listed investments at the end of the year is part of the Group's investment in the Ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales.

4. Trade and other receivables

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Company does not currently hold any financial assets at FVOCI i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost

Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

Notes to the Financial Statements continued

For the year ended 31 December 2019

4. Trade and other receivables continued

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets

The Company recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. ECLs are based on the difference between the contractual cash flows due to the Company, and the discounted actual cash flows that are expected be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12–month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and are based on their historical credit loss experience, adjusted for forward–looking factors specific to the debtors and the economic environment. The Company evaluates the concentration of risk with respect to intercompany receivables as low, as its customers are intercompany ventures, and has considered the risk relating to the probability of default on loans that are repayable on demand. The Company has evaluated an expected credit loss of $0.5 million for the year ended 31 December 2019 (2018: $2.5 million).

	2019 $'000	2018 $'000
Due within one year		
Amounts due from subsidiaries	**5,649**	6,442
Due after one year		
Amounts due from subsidiaries	**1,099,722**	1,094,298

5. Deferred tax

The Company has unused UK mainstream corporation tax losses of $56.8 million (2018: $52.7 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

6. Trade and other payables: amounts falling due within one year

Accounting policy

Financial liabilities

Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial liabilities at amortised cost

Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the effective interest rate method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

	2019 $'000	2018 $'000
Bond interest	**16,992**	16,810
Other interest	**12,761**	–
Amounts due to subsidiaries	**93,185**	98,375
Accruals	**145**	118
	123,083	115,303

7. Trade and other payables: amounts falling due after one year

	2019 $'000	2018 $'000
Bonds	**966,231**	990,283

At 31 December 2019, bonds comprise a high yield bond with principal of $746.1 million (2018: $746.1 million) and a retail bond with principal of £171.9 million (2018: £171.9 million). The bonds mature in April 2022 and pay a coupon of 7.0% bi-annually. See note 18 of the Group financial statements.

8. Share capital and share premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2019	1,694,406,148	118,182	227,149	345,331
Issuance of equity shares	1,395,807	89	—	89
At 31 December 2019	**1,695,801,955**	**118,271**	**227,149**	**345,420**

The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

At 31 December 2019, there were 43,232,936 shares held by the Employee Benefit Trust (2018: 73,180,394). 1,012,658 shares were issued across 2019 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. The Employee Benefit Trust acquired 22,126,481 shares pursuant to the rights issue. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of 2018.

9. Reserves

Share capital and share premium

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

Merger reserve

The Company merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued where merger relief applies to the transaction. The reserve is adjusted for any write down in the value of the investment in the subsidiary.

Other reserve

The other reserve is used to record any other transactions taken straight to reserves as non-distributable.

Share-based payments reserve

The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards. Share-based payment plan information is disclosed in note 21 of the Group financial statements.

10. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in note 5(g) of the Group financial statements.

11. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on page 71.

Glossary — Non-GAAP measures

The Group uses Alternative Performance Measures ('APMs') when assessing and discussing the Group's financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain re-measurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows.

Business performance net profit attributable to EnQuest PLC shareholders	2019 $'000	2018 $'000
Reported net profit/(loss) (A)	**(449,301)**	127,278
Adjustments — remeasurements and exceptional items (note 4):		
Unrealised (losses)/gains on oil derivative contracts (note 19)	**(65,375)**	97,432
Unrealised (gains)/losses on foreign exchange derivative contracts (note 19)	**1,684**	(248)
Unrealised (gains)/losses on carbon derivative contracts (note 19)	**(2,062)**	(2,062)
Net impairment (charge)/reversal to oil and gas assets (note 10, 11 and note 12)	**(812,448)**	(126,046)
Unwind of contingent consideration (note 22)	**(57,165)**	(9,590)
Change in contingent consideration (note 22)	**(15,520)**	—
KUFPEC provision (note 23)	**(15,630)**	—
Contingent consideration release	**—**	5,300
Excess of fair value over consideration: Purchase option (note 30)	**—**	(1,329)
Write down of receivable (note 4)	**(415)**	(3,010)
Exploration and evaluation expenses: Written off and impaired (note 11)	**(150)**	(1,407)
Other exceptional items	**(20)**	3,292
Pre-tax remeasurements and exceptional items (B)	**(967,101)**	36,677
Tax on remeasurements and exceptional items (C)	**303,460**	12,406
Post-tax remeasurements and exceptional items (D = B + C)	**(663,641)**	49,083
Business performance net profit attributable to EnQuest PLC shareholders (A – D)	**214,340**	78,195

EBITDA	2019 $'000	2018 $'000
Reported profit/(loss) from operations before tax and finance income/(costs)	**(467,768)**	326,738
Adjustments:		
Pre-tax remeasurements and exceptional items	**909,936**	(36,677)
Depletion and depreciation (note 5(b) and note 5(c))	**533,352**	442,391
Inventory revaluation	**14,588**	5,837
Net foreign exchange (gain)/loss (note 5(d) and note 5(e))	**16,427**	(21,911)
Business performance EBITDA (E)	**1,006,535**	716,378

EBITDA is calculated on a 'Business performance' basis, and is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure.

Total cash and available facilities	2019 $'000	2018 $'000
Available cash	**144,214**	159,646
Ring-fenced cash	**73,985**	77,554
Restricted cash	**2,257**	3,404
Total cash and cash equivalents (F) (note 14)	**220,456**	240,604
Available credit facilities	**535,000**	860,000
Credit facility — Drawn down (appendix)	**(460,000)**	(785,000)
Letter of credit (note 14)	**(6,849)**	(6,640)
Available undrawn facility (G)	**68,151**	68,360
Total cash and available facilities (F + G)	**288,607**	308,964

Net debt	2019 $'000	2018 $'000
Borrowings (note 18):		
Credit facility — Drawn down	**460,000**	785,000
Credit facility — PIK	**15,097**	14,444
Sculptor Capital facility	**120,287**	175,199
Crude oil prepayment	**–**	22,111
SVT working capital facility	**31,899**	15,747
Tanjong Baram project financing facility	**31,730**	31,730
Trade creditor loan	**–**	2,500
Borrowings (H)	**659,013**	1,046,731
Bonds (note 18):		
High yield bond	**741,573**	754,078
Retail bond	**224,658**	236,204
Bonds (I)	**966,231**	990,282
Non-cash accounting adjustments:		
Unamortised fees on loans and borrowings	**2,625**	3,436
Unamortised fees on bonds	**5,572**	8,049
Accounting adjustment due to IFRS 9 Financial Instruments	**–**	(33,407)
Non-cash accounting adjustments (J)	**8,197**	(21,922)
Debt (H + I + J) (K)	**1,633,441**	2,015,091
Less: Cash and cash equivalents (note 14) (E)	**220,456**	240,604
Net debt/(cash) (K — F) (L)	**1,412,985**	1,774,487

Net debt/EBITDA	2019 $'000	2018 $'000
Net debt (L)	**1,412,985**	1,744,487
Business performance EBITDA (E)	**1,006,535**	716,378
Net debt/EBITDA (L/E)	**1.4**	2.5

Cash capex	2019 $'000	2018 $'000
Reported net cash flows (used in)/from investing activities	**(257,838)**	(318,613)
Adjustments:		
Consideration on exercise of Magnus acquisition option	**–**	100,000
Repayment of Magnus contingent consideration — Profit share	**21,581**	–
Interest received	**(1,225)**	(1,599)
Cash Capex	**(237,482)**	(220,213)

Free cash flow	2019 $'000	2018 $'000
Net cash flows from/(used in) operating activities	**962,271**	794,431
Net cash flows from/(used) in investing activities	**(257,838)**	(318,613)
Net cash flows from/(used) in financing activities	**(729,996)**	(403,560)
Adjustments:		
Proceeds of loans and borrowings	**–**	(219,900)
Repayment of loans and borrowings	**394,025**	402,008
Rights Issues proceeds received	**–**	(138,926)
Magnus cash acquisition	**–**	100,000
Free cash flow	**368,462**	215,440

Glossary – Non-GAAP measures continued

Revenue sales	2019 $'000	2018 $'000
Revenue from crude oil sales (note 5) (M)	**1,548,177**	1,237,600
Revenue from gas and condensate sales (note 5) (N)	**120,242**	43,063
Realised (losses)/gains on oil derivative contracts (note 5) (P)	**24,756**	(93,035)

Barrels equivalent sales	2019 kboe	2018 kboe
Sales of crude oil (Q)	**24,098**	17,823
Sales of gas and condensate	**4,082**	116
Total sales (R)	**28,180**	17,939

Average realised prices(i)	2019 $/boe	2018 $/boe
Average realised oil price, excluding hedging (M/Q)	**64.2**	69.4
Average realised oil price, including hedging ((M + P)/Q)	**65.3**	64.2
Average realised blended price, excluding hedging ((M + N)/R)	**59.2**	71.4
Average realised blended price, including hedging ((M + N + P)/R)	**60.1**	66.2

(i) Classification of average realised oil price has been enhanced in the year, excluding those condensate barrels which were included in prior years

Operating costs	2019 $'000	2018 $'000
Reported cost of sales	**1,243,948**	924,302
Adjustments:		
Pre-tax remeasurements and exceptional items	**(378)**	1,718
Depletion of oil and gas assets	**(525,145)**	(437,104)
(Credit)/charge relating to the Group's lifting position and inventory	**(102,853)**	25,093
Other cost of sales	**(97,459)**	(48,068)
Operating costs	**518,113**	465,941
Realised (gain)/loss on derivative contracts	**(1,707)**	(615)
Operating costs directly attributable to production	**516,406**	465,326
Comprising of:		
Production costs (S)	**441,624**	396,880
Tariff and transportation expenses (T)	**74,782**	68,446
Operating costs directly attributable to production	**516,406**	465,326

Barrels equivalent produced	2019 kboe	2018 kboe
Total produced (working interest) (U)	**25,041**	20,238

Unit opex	2019 $/boe	2018 $/boe
Production costs (S/U)	**17.6**	19.6
Tariff and transportation expenses (T/U)	**3.0**	3.4
Total unit opex ((S + T)/U)	**20.6**	23.0

Company information

Registered office
5th Floor, Cunard House
15 Regent Street
London
SW1Y 4LR

Corporate brokers
J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

BofA Securities
2 King Edward Street
London
EC1A 1HQ

Auditor
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Legal adviser to the Company
Ashurst LLP
London Fruit & Wool Exchange
1 Duval Square
London
E1 6PW

Corporate and financial public relations
Tulchan Communications LLP
85 Fleet Street
London
EC4Y 1AE

EnQuest PLC shares are traded on the London Stock Exchange and on the NASDAQ OMX Stockholm, in both cases using the code 'ENQ'.

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Swedish registrar
Euroclear Sweden AB
Box 191
101 23 Stockholm
Sweden

Financial calendar
21 May 2020: Annual General Meeting
3 September 2020: Half year results (subject to change)

Forward-looking statements: This announcement may contain certain forward-looking statements with respect to EnQuest's expectations 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 upon as a guide to future performance.

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Visit us at emperor.works

London, England
5th Floor, Cunard House
15 Regent Street
London, SW1Y 4LR
United Kingdom

T +44 (0)20 7925 4900

Kuala Lumpur, Malaysia
Level 12, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia

T +60 3 2783 1888

Aberdeen, Scotland
Annan House
Palmerston Road
Aberdeen, AB11 5QP
United Kingdom

T +44 (0)1224 975 000

Dubai, UAE
14th Floor, Office #1403
Arenco Tower
Dubai Internet City
Dubai, UAE

T +971 4 550 7100

More information at www.enquest.com