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 54 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 2018 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRS 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 12 to the Company financial statements
Group Statement of Cash Flows	
Notes 1 to 29 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 IFRS 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.

Conclusions relating to principal risks, going concern and viability statement

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 36 to 43 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 36 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 page 36 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 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 26 to 27 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	• Complexity of the acquisition accounting for 75% of Magnus • Going concern assumption • Impact of estimation of the quantity of oil and gas reserves
Audit scope	• We performed an audit of the complete financial information of the North Sea component (full scope) • Malaysia was full scope in the prior year and has been changed to specific scope this year. This change is driven by the relatively smaller contribution of Malaysia to Group EBITDA (the basis of our materiality) (2018: 10%, 2017: 19%). We did not identify a perceived heightened risk of material misstatement following the full scope audit procedures performed last year and no additional risks were identified in the current year • Through our on-site work on full and specific scope entities in the UK and Malaysia we will cover 100% of the Group's EBITDA, 100% of the Group's revenue and 99% of the Group's total assets
Materiality	• Overall Group materiality of $14.3 million which represents 2% of Business performance EBITDA

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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
Complexity of the acquisition accounting for 75% of Magnus		Risk direction: ↑

The accounting for the acquisition of an additional 75% stake in the Magnus field resulted in:

1. **Revaluing the option to acquire the 75% stake generating a loss in the income statement of $1 million**
2. **Recording the fair value of the net assets acquired which principally related to property, plant and equipment of $745 million**
3. **Recording deferred consideration of $625 million reflecting the payments due from the future production of Magnus**
4. **Recording goodwill of $95 million which principally relates to the recognition of a deferred tax liability of $298 million partially offset by the recognition of a deferred tax asset of $203 million**
5. **A gain of $124 million following the revaluation of the existing 25% stake in Magnus**

Refer to the Audit Committee Report (pages 53 to 57); Accounting policies (from page 96); and note 29 of the Annual Report and Accounts

The acquisition of the 75% share in Magnus completed on 1 December 2018.

The consideration for this acquisition was:

- $100 million upfront cash;
- $200 million of deferred consideration through a vendor loan from BP; and
- Further cash flow sharing from future production.

Due to the complexity of the accounting for the pre-existing option and the acquisition transaction itself, there is a risk that the accounting could be inaccurate or incomplete.

There is also a risk that the revaluation of the option, fair value of net assets acquired, deferred consideration and the revaluation of the existing 25% stake in Magnus could be materially incorrect.

We documented our understanding and walked through EnQuest's process for calculating and recording the various elements of this acquisition.

The procedures on the:

- Revaluation of the option;
- Fair value of net assets acquired;
- Deferred consideration; and
- Revaluation of the existing 25% stake in Magnus

are focused on the audit of EnQuest's underlying valuation models which value the future cash flows of the Magnus field and apportion those future cash flows in accordance with the Sale and Purchase Agreement ('SPA').

The key inputs to EnQuest's valuation models included oil price assumptions, production profiles, future capital and operating expenditures and discount rates. Our procedures included:

- Prices: compared the short and long-term price assumption to those prepared by our internal valuation specialists;
- Production profiles, future capital and operating expenditures: EnQuest made their own estimates for these values and used a 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 application of the resulting estimates to the accounts. Our procedures on production profiles are further outlined below in the section on oil and gas reserves; and
- Discount rates: we used our internal valuation specialists to assist us in evaluating whether EnQuest's discount rate was reasonable.

We tested the mathematical accuracy and integrity of the model.

Given the size of the gain recorded, we also focused on what was driving the increased value of Magnus since the 25% acquisition in late 2017. We did this by comparing the updated cash flows to the prior year cash flows and identifying the key changes and obtaining evidence to support those changes.

EnQuest have updated their reserve estimates compared to the prior year resulting in an increase in 2P reserves driven by management's assessment of the asset in the 12 months since the 25% acquisition with a significantly revised work programme. The new programme has resulted in additional forecast capital expenditures to perform additional drilling and other procedures which management believe will extend the life of Magnus and result in additional reserves being recovered. Our conclusions on reserves are included below.

In our view, the oil price assumptions, future capital and operating expenditures and discount rate assumptions used by management are within reasonable ranges.

Consequently, we believe management have appropriately accounted for all elements of the transaction. The option revaluation, the recognition of the fair value of net assets acquired, the fair value of the consideration paid for the 75% increase and the revaluation of the existing 25% share of Magnus have been appropriately recorded and disclosed.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Going concern assumption		Risk direction: ↓

Going concern assumption (including impact of oil prices, loan covenants and projections)

Refer to the Audit Committee Report (pages 53 to 57; Accounting policies (from page 96)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
There remains a heightened awareness around going concern, in particular as the assessment includes significant management estimates regarding future liquidity. Going concern continues to be a significant risk given the large upcoming debt amortisation payments relating to the revolving credit facility ('RCF') due in six-monthly instalments as outlined in note 19. There is a focus on whether the Directors have appropriately disclosed the risks and uncertainties associated with going concern and whether it is appropriate to prepare the financial statements on a going concern basis.	We discussed with management and the Audit Committee to understand and walkthrough EnQuest's internal process for going concern assessment. 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 considered whether management has exercised any bias in selecting their assumptions; We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom; 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. We assessed whether the mitigating actions proposed by the Directors, including asset sales or other funding options, are feasible within the required time frame. We reviewed the disclosures made in the Annual Report and Accounts as highlighted in the above section of our opinion covering going concern.	We have audited the going concern model and have concluded that the Directors' assessment that EnQuest PLC is a going concern is appropriate. We have also concluded that management have made appropriate disclosures discussing the risks and assumptions associated with this conclusion.

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
Impact of estimation of the quantity of oil and gas reserves		Risk direction:

Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions, going concern assessment and fair value model for Magnus acquisition

Refer to the Audit Committee Report (pages 53 to 57); Accounting policies (note 2 of the Annual Report and Accounts); and the Strategic Report (pages 36 to 43)

The estimation of oil and gas reserves requires significant judgement and assumptions by management and engineers which could be manipulated to achieve desired results. These estimates have a material impact on the financial statements.

There is technical uncertainty in assessing reserve quantities and complex contractual arrangements dictating EnQuest's share of reserves, particularly the Production Sharing Contract and Risk Sharing Contract and joint venture arrangements in place. We focus on management's estimation process including whether bias exists in the determination of reserves and resources.

The risk has remained the same compared to last year.

We carried out procedures to understand and walkthrough EnQuest's internal process for oil and gas reserves estimation.

We evaluated the competence of internal specialists and the competence and objectivity of external specialists. We also obtained the report of the external specialists on their audit of the reserves for the UK North Sea and Malaysia assets as at 31 December 2018. We held a meeting with the Chief Petroleum Engineer and external specialists to evaluate the appropriateness of their work and findings.

We have assessed the reasonableness of the assumptions in the reserves report, such as future oil price assumptions, to those prepared by our internal valuation specialists. We also reconciled internal estimates to third party reserves reports, and obtained an understanding of any differences.

We performed analytical procedures to identify movements by comparing this year to last year on a field by field basis. We obtained explanations for the significant additions on Magnus and the absence of significant movements on Kraken with the Chief Petroleum Engineer and external specialists.

We discussed with the Chief Petroleum Engineer and external specialists the fact that EnQuest's joint venture partner in the Kraken field had reported reserves that were lower than EnQuest and obtained explanations for this difference.

We compared management's internal estimations to those of the independent external specialist and investigated all significant variations.

We checked that the reserve estimates were consistently used in the asset impairment testing, the calculation of depreciation, depletion and amortisation, the calculation of decommissioning provisions, the assessment of going concern and the fair value calculation for Magnus.

We have concluded that the estimation of oil and gas reserves are in line with appropriate methodology and guidelines, and have been determined on a reasonable basis through the use of competent internal experts and objective and competent external specialists.

We did not identify any indication of management bias in the estimation process.

In the prior year, our auditor's report included a section: 'Material uncertainty related to going concern' to discuss the material uncertainty that may have cast significant doubt on the Group's or the parent company's ability to continue as a going concern. In the current year, management has concluded that a material uncertainty does not exist over going concern and we agree with this conclusion. Hence, we did not include a 'Material uncertainty related to going concern' section but have discussed the risk, our procedures performed and conclusion on going concern in the key audit matter section above.

The 'complexity of the deferred taxation calculation' was considered to be a key audit matter for the 2017 audit. While the complexity of the calculation remains a risk, there were no significant changes in the calculation methodology or legislation impacting the 2018 balance, hence this matter has had less impact on the allocation of resources in the audit and directing the efforts of the engagement team than in the prior year. For the 2018 audit, the work performed in relation to the deferred tax arising from the Magnus option is included with the key audit matter 'Complexity of the acquisition accounting for 75% of Magnus'.

Impairment and impairment reversal of the carrying value of tangible assets, intangible assets and goodwill was considered to be a key audit matter for the 2017 audit. For the 2018 audit, the key inputs and assumptions that impact this risk, such as oil prices, discount rates, production profiles and future costs, have been covered through our audit procedures on other key audit matters relating to the acquisition of the 75% stake in Magnus, reserves and going concern. We therefore concluded that, as a stand-alone risk, this had less impact on the allocation of resources and directing the efforts of the engagement team and hence was not reported as a key audit matter for the 2018 audit.

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, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the two reporting components of the Group, we selected both components covering entities within Malaysia and the North Sea, which represent the principal business units within the Group.

We performed an audit of the complete financial information of the North Sea business unit (full scope) as it accounts for approximately 90% of the Group's EBITDA. We audited the Malaysian entities as specific scope. We also audited 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.

	Full scope	Specific scope	Other procedures
REVENUE	89% (2017: 100%)	11% (2017: 0%)	0% (2017: 0%)
EBITDA	90% (2017: 100%)	10% (2017: 0%)	0% (2017: 0%)
TOTAL ASSETS	96% (2017: 95%)	3% (2017: 0%)	0% (2017: 5%)

Changes from the prior year

Malaysia was full scope in the prior year and has been reduced to specific scope audit this year. This change is driven by the relatively smaller contribution of Malaysia to Group EBITDA (the basis of materiality) (2018: 10%, 2017: 19%) and no perceived heightened risk of material misstatement following the full scope audit procedures performed audit last year.

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. 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. The primary team also attended the audit close meeting with EnQuest Malaysia management. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

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 $14.3 million (2017: $6.1 million), which is 2% (2017: 2%) of Business performance EBITDA as included in the consolidated financial statements. Our materiality has increased by 134% from the prior year in line with the increased profitability of the Group. In the prior year, materiality was lower due to lower price and production levels and as both recovered in 2018, we expected our materiality to increase. 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 most focused on by stakeholders.

We determined materiality for the parent company to be $8.9 million (2017: $7.8 million), which is 1% (2017: 1%) of equity excluding the impact from reversal of impairment on investment. The materiality is lower for the parent company as compared to the Group due to the different basis used for determining materiality.

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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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% (2017: 50%) of our planning materiality, namely $7.2 million (2017: $3.1 million). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the engagement indicating a higher risk of misstatements.

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 $6.4 million (90% of Group performance materiality) for the North Sea (2017: $2.8 million) and $2.1 million (30% of Group performance materiality) for Malaysia (2017: $1.2 million).

Reporting threshold

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

We identify and capture misstatements above $0.7 million (2017: $0.3 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 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 54 – 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 53 to 57 – 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 49 to 52 – 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 84, 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.

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 and employee matters.
- 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 May 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 programmes 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 programmes 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 eight years, covering the years ended 31 December 2010 to 31 December 2018. 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

20 March 2019

Notes:
1 The maintenance and integrity of the EnQuest PLC website 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 2018

		2018			2017		
	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 $'000
Revenue and other operating income	5(a)	**1,201,005**	**97,432**	**1,298,437**	635,167	(7,716)	627,451
Cost of sales	5(b)	**(926,020)**	**1,718**	**(924,302)**	(569,506)	5,481	(564,025)
Gross profit/(loss)		**274,985**	**99,150**	**374,135**	65,661	(2,235)	63,426
Net impairment (charge)/reversal to oil and gas assets	4	**–**	**(126,046)**	**(126,046)**	–	(171,971)	(171,971)
General and administration expenses	5(c)	**(4,018)**	**–**	**(4,018)**	(848)	–	(848)
Other income	5(d)	**22,428**	**78,316**	**100,744**	6,807	50,613	57,420
Other expenses	5(e)	**(3,362)**	**(14,715)**	**(18,077)**	(24,363)	(20,358)	(44,721)
Profit/(loss) from operations before tax and finance income/(costs)		**290,033**	**36,705**	**326,738**	47,257	(143,951)	(96,694)
Finance costs	6	**(236,114)**	**(28)**	**(236,142)**	(149,020)	(272)	(149,292)
Finance income	6	**3,389**	**–**	**3,389**	2,213	–	2,213
Profit/(loss) before tax		**57,308**	**36,677**	**93,985**	(99,550)	(144,223)	(243,773)
Income tax	7	**20,887**	**12,406**	**33,293**	65,996	116,947	182,943
Profit/(loss) for the year attributable to owners of the parent		**78,195**	**49,083**	**127,278**	(33,554)	(27,276)	(60,830)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Transfers to income statement of cash flow hedges				**(36)**			(5)
Other comprehensive income for the year, net of tax				**(36)**			(5)
Total comprehensive income for the year, attributable to owners of the parent				**127,242**			(60,835)
Earnings per share	8	**$**		**$**	$		$
Basic		**0.064**		**0.104**	(0.025)(i)		(0.046)(i)
Diluted		**0.062**		**0.101**	(0.025)(i)		(0.046)(i)

(i) Restated following rights issue

The attached notes 1 to 29 form part of these Group financial statements.

GROUP BALANCE SHEET
At 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**4,349,913**	3,848,622
Goodwill	11	**283,950**	189,317
Intangible oil and gas assets	12	**51,803**	52,103
Investments	13	**31**	152
Deferred tax assets	7	**286,721**	398,263
Other financial assets	20	**5,958**	8,191
		4,978,376	4,496,648
Current assets			
Inventories	14	**100,532**	78,045
Trade and other receivables	15	**275,809**	227,754
Current tax receivable		**20**	1,159
Cash and cash equivalents	16	**240,604**	173,128
Other financial assets	20	**66,575**	61,737
		683,540	541,823
TOTAL ASSETS		**5,661,916**	5,038,471
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	17	**345,331**	210,402
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**–**	36
Share-based payment reserve		**(6,884)**	(5,516)
Retained earnings		**(17,750)**	(106,911)
TOTAL EQUITY		**983,552**	760,866
Non-current liabilities			
Borrowings	19	**735,470**	888,993
Bonds	19	**990,282**	934,351
Obligations under finance leases	24	**615,781**	679,924
Provisions	22	**1,306,092**	705,999
Trade and other payables	23	**18,209**	78,777
Other financial liabilities	20	**–**	7,121
Deferred tax liabilities	7	**27,815**	62,685
		3,693,649	3,357,850
Current liabilities			
Borrowings	19	**311,261**	330,012
Obligations under finance leases	24	**93,169**	118,009
Provisions	22	**81,050**	43,215
Trade and other payables	23	**483,781**	367,312
Other financial liabilities	20	**142**	61,207
Current tax payable		**15,312**	–
		984,715	919,755
TOTAL LIABILITIES		**4,678,364**	4,277,605
TOTAL EQUITY AND LIABILITIES		**5,661,916**	5,038,471

The attached notes 1 to 29 form part of these Group financial statements.

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 1 January 2017	208,639	662,855	41	(6,602)	(46,081)	818,852
Profit/(loss) for the year	–	–	–	–	(60,830)	(60,830)
Other comprehensive income	–	–	(5)	–	–	(5)
Total comprehensive income for the year	–	–	(5)	–	(60,830)	(60,835)
Share-based payment	–	–	–	2,849	–	2,849
Shares issued on behalf of Employee Benefit Trust	1,763	–	–	(1,763)	–	–
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 purchased on behalf of Employee Benefit Trust	**6,013**	**–**	**–**	**(6,013)**	**–**	**–**
Balance at 31 December 2018	**345,331**	**662,855**	**–**	**(6,884)**	**(17,750)**	**983,552**

The attached notes 1 to 29 form part of these Group financial statements.

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	28	**788,629**	327,034
Cash (paid)/received on sale/(purchase) of financial instruments		**(16,363)**	(1,185)
Proceeds from exercise of Thistle decommissioning option		**50,000**	–
Decommissioning spend	22	**(10,036)**	(10,605)
Income taxes paid		**(17,798)**	(13,463)
Net cash flows from/(used in) operating activities		**794,432**	301,781
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(220,213)**	(358,420)
Purchase of intangible oil and gas assets		**–**	(9,171)
Proceeds from disposal of Ascent loan notes		**–**	3,561
Consideration on exercise of Magnus acquisition option		**(100,000)**	–
Deferred consideration on initial Magnus acquisition		**(48,642)**	–
Interest received		**1,600**	340
Net cash flows (used in)/from investing activities		**(367,255)**	(363,690)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**219,900**	162,970
Repayment of bank facilities		**(402,008)**	(50,969)
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)**	(1,356)
Repayment of obligations under finance leases		**(144,820)**	–
Interest paid		**(136,482)**	(46,052)
Other finance costs paid		**(20,425)**	(6,286)
Net cash flows from/(used in) financing activities		**(354,919)**	58,307
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**72,258**	(3,602)
Net foreign exchange on cash and cash equivalents		**(4,726)**	5,210
Cash and cash equivalents at 1 January		**169,668**	168,060
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**237,200**	169,668
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**237,200**	169,668
Restricted cash	16	**3,404**	3,460
Cash and cash equivalents per balance sheet		**240,604**	173,128

The attached notes 1 to 29 form part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 31 December 2018

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

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

The Group's financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 20 March 2019.

A listing of the Group companies is contained in note 27 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 2018 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 2018.

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 below. The presentation currency of the Group financial information is United States Dollars and all values in the Group financial information are rounded to the nearest thousand ($'000) except where otherwise stated.

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

New standards and interpretations
The Group applied IFRS 15 Revenue from Contracts with Customers 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 2018 but they do not have a material effect on the Group's financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The five-step model applies to revenue arising from contracts with customers and requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

The Group adopted IFRS 15 using the full retrospective method of adoption as per the new IFRS 15 accounting policies and the Group has assessed that there is no impact on the financial statements.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, bringing together the accounting aspects for financial instruments: classification and measurement, impairment under the expected credit loss ('ECL') model and hedge accounting.

When adopting IFRS 9, the Group has applied transition relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 are recognised in retained earnings. The total impact on the Group's retained earnings as at 1 January 2018 is $38.1 million. The effect of adopting IFRS 9 is as follows:

Impact on the statement of financial position (increase/(decrease)):

Balance sheet (extract)	31 December 2017 $'000	IFRS 9 adjustment $'000	**1 January 2018 $'000**
Non-current liabilities			
Bonds	934,351	38,117	**972,468**
Total	934,351	38,117	**972,468**
Equity			
Retained earnings	(106,911)	(38,117)	**(145,028)**
Total	(106,911)	(38,117)	**(145,028)**

The table shows the adjustment recognised for each relevant 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 2018.

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

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

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 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.

IFRS 16 Leases

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessees will be required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current accounting under IAS 17 i.e. lessors continue to classify leases as finance or operating leases.

During 2018, the Group has performed an impact assessment for the application of IFRS 16. This assessment is based on currently available information and will be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019, including the Group's borrowing rate at 1 January 2019 when the Group will adopt IFRS 16. The Group continues to assess its accounting processes, controls and policies on an ongoing basis.

The Group will adopt the new standard on the required effective date using the modified retrospective method. The Group will apply the practical expedient to grandfather the definition of a lease on transition. It will therefore apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. Contracts which have not been considered or identified as a lease will continue to be accounted for in line with their historical treatment. The Group will also elect to use the exemptions proposed by the standard on 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.

The Group has identified leases which will be recognised as finance leases under IFRS 16. On the implementation of IFRS 16 on 1 January 2019, the Group expects to recognise right-of-use assets and corresponding lease liabilities of approximately $82 million. The preliminary estimated impact on the Group's 2019 consolidated statement of comprehensive income results in a decrease in net profit of approximately $2 million; a result of the replacement of operating lease payments previously accounted under IAS 17 by increased depreciation and finance charges under IFRS 16. EBITDA is estimated to increase by approximately $7 million. The estimated 2019 consolidated financial statements impact is computed based on the information available to date and the actual impact of IFRS 16 on the Group's 2019 consolidated financial statements may differ from the estimates provided above.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the sole right to exercise control over the operations and govern the financial policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the Group's control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Intercompany profits, transactions and balances are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

2. Summary of significant accounting policies continued
Business combinations
Business combinations are accounted for using the acquisition method. 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. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as a financial liability are remeasured through profit or loss. If the contingent consideration is not within the scope of IFRS 9, it is measured at fair value in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill
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.

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. 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 cash generating units ('CGU') that are 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.

Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. 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.

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:

Estimates in 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. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and decommissioning. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method.

Estimates in impairment of oil and gas assets, goodwill and the estimate of the cost recovery provision
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 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). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on internal view of forward curve prices for the first three years and thereafter at $75/bbl inflated at 2.0% per annum from 2023; discount rates derived from the Group's post-tax weighted average cost of capital of 10.0% (2017: 10.0%); commercial reserves and the related cost profiles. 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 is the appropriate basis upon which to assess goodwill and individual assets for impairment.

These same models and assumptions are used in the calculation of the cost recovery provision (see note 22).

Determining the fair value of property, plant and equipment on business combinations
The Group determines the fair value of property, plant and equipment acquired in a business combination based on the discounted cash flows at the time of acquisition from the proven and probable reserves. In assessing the discounted cash flows, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value, the Group will apply a forward curve followed by an oil price assumption representing management's view of the long-term oil price.

Decommissioning provision
Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements, technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2.0% (2017: 2.0%) and an annual discount rate of 2.0% (2017: 2.0%).

Going concern
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 going concern assumption is highly sensitive to economic conditions. The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure 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 development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. See the Financial Review for further details.

Taxation
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.

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 judgements and assumptions regarding the likelihood of future taxable profits and the amount of deferred tax that can be recognised.

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 United States 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 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 profit and loss in the statement of comprehensive income.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any 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.

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.

Depreciation on other elements of property, plant and equipment is provided on a straight-line basis at the following rates:

Office furniture and equipment	Five years
Fixtures and fittings	Ten years
Long leasehold land	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 2018

2. Summary of significant accounting policies continued

Oil and gas assets

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.

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.

Farm-outs – in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. In the event of a partial farm-out, the Group also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Farm-outs – outside the exploration and evaluation phase

In accounting for a farm-out arrangement outside the exploration and evaluation phase, the Group:

- Derecognises the proportion of the asset that it has sold to the farmee;
- Recognises the consideration received or receivable from the farmee, which represents the cash received and/or the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor and/or any deferred consideration;
- Recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets; and
- Tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the Group. However, if payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue. Any part of the consideration that is receivable in the form of cash is treated as a financial asset and is accounted for at amortised cost.

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.

Changes in unit of production factors

Changes in factors which affect unit of production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.

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 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. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial instruments (policy applicable from 1 January 2018)
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. 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 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
Initial recognition and initial measurement
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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs (in the case of a financial asset not at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Subsequent measurement
Financial assets at amortised cost
This category is the most relevant to the Group. 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.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. 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. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets 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.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the ECL model. This replaces IAS 39's 'incurred loss model'.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a '12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a 'lifetime ECL').

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

It is the Group's policy to measure ECLs on such instruments on a 12-month basis.

Financial liabilities

Initial recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables, quoted and unquoted financial liabilities, and derivative financial instruments.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and commodity contracts, to address its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any changes in fair value are recognised immediately in the profit or loss within 'Remeasurements and exceptional items' profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's 'Business performance' results with a corresponding reclassification from 'Remeasurements and exceptional items'.

Option premium received or paid for commodity derivatives are amortised into 'Business performance' revenue over the period between the inception of the option, and that option's expiry date. This results in a corresponding reclassification from 'Remeasurements and exceptional items' revenue.

The Group has not designated any derivative financial instruments as hedging instruments for the periods contained within these financial statements.

Loans and borrowings

This is the category most relevant to the Group and includes the measurement of the bonds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. This category generally applies to interest-bearing loans and borrowings.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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

Cash and cash equivalents
Cash and cash equivalents includes cash at bank, cash in hand, outstanding bank overdrafts and highly liquid interest-bearing securities with original maturities of three months or less.

Equity
Share capital
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.

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.

Cash flow hedge reserve
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve. Upon settlement of the hedged item, the change in fair value is transferred to profit or loss.

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 directly at the fair value of the services received. The share-based payments reserve includes shares held within the Employee Benefit Trust.

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

Employee Benefit Trust
EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. 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.

Provisions
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 amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the statement of comprehensive income.

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.

Leases
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.

Group 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Group 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.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are 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.

Sale of crude oil, gas and condensate

The sale of crude oil, gas or condensate represents a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue is accordingly recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. Variable revenue conditions can arise on either party based on the failure to provide commitments detailed within the contract. These variations arise as an event occurs and therefore the transaction price is known at the timing of the performance obligations with no judgement required. The normal credit term is 30 to 90 days upon collection or delivery.

Tariff revenue for the use of Group infrastructure

Tariffs are charged to customers for the use of infrastructure owned by the Group. There is one contract per customer which is for a period of 12 months or less and is based on one performance obligation for the use of Group assets. 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 over the performance of the contract as services are provided for the use of the infrastructure at the agreed contracted rates on a throughput basis.

Other income

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

Production imbalances and under/over-lift

Production imbalances arise on fields as oil is lifted per each joint venture party, resulting in a variance in the volume of oil lifted versus the entitlement per owner per their working interest. All Group fields are operated through a Joint Venture Agreement ('JVA') through which production imbalances are settled. Settlement occurs through agreed lifting schedules and are not settled in cash, with the exception of a misbalance at the cessation of contract. As collaborative agreements and non-monetary exchanges, the transactions do not meet the definition of a customer under IFRS 15 and are recognised through cost of sales.

The under or over-lifted positions of hydrocarbons arising from production imbalances are valued at market prices prevailing at the balance sheet date. An under-lift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price. An over-lift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price. Movements in under or over-lifted positions are accounted for through cost of sales.

Remeasurements and exceptional items

As permitted by IAS 1 (Revised): Presentation of Financial Statements, certain items are presented separately. 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.

The following items are classified as Remeasurements and exceptional items ('exceptional'):

- Unrealised mark-to-market changes in the remeasurement of derivative contracts are included in exceptional profit or loss. This includes the recycling of realised amounts from exceptional items into 'Business performance' income when a derivative instrument matures, together with the recycling of option premium amortisation from exceptional to 'Business performance' as set out in the derivatives policy previously;
- Impairments and write offs/write downs are deemed to be exceptional in nature. This includes impairments of tangible and intangible assets, and write offs/write downs of unsuccessful exploration. Other non-routine write offs/write downs, where deemed material, are also included in this category;
- The depletion of a fair value uplift to property, plant and equipment that arose from the merger accounting applied at the time of EnQuest's formation; and
- Other exceptional items that arise from time to time as reviewed by management and disclosed as exceptionals in the notes to the financial statements, such as the acquisition accounting of Magnus and other interests in 2017 and 2018.

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

Pension obligations
The Group's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has 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.

Share-based payment transactions
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 (equity-settled transactions) of EnQuest PLC.

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Fair value is measured in reference to the scheme rules, as detailed in note 18. In valuing equity-settled 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.

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the vesting period). 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.

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.

Taxes
Income taxes
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.

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 corporation 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 corporation taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3. Segment information

Management have 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 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 2018 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	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 reversal/(charge) 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)	276,365	38,442	5,839	320,646	6,092	326,738
Other disclosures:						
Capital expenditure	167,070	15,806	–	182,876	–	182,876

Year ended 31 December 2017 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
Revenue from contracts with customers	527,272	119,545	–	646,817	–	646,817
Other income	8,578	347	–	8,925	(28,291)	(19,366)
Total revenue	535,850	119,892	–	655,742	(28,291)	627,451
Income/(expenses):						
Depreciation and depletion	(201,684)	(27,514)	–	(229,198)	–	(229,198)
Net impairment reversal/(charge) to oil and gas assets	(187,716)	15,745	–	(171,971)	–	(171,971)
Impairment reversal of investments	(19)	–	–	(19)	–	(19)
Exploration write offs and impairments	193	–	–	193	–	193
Segment profit/(loss)	(135,187)	39,062	22,844	(73,281)	(23,413)	(96,694)
Other disclosures:						
Capital expenditure	322,398	2,299	–	324,697	–	324,697

Adjustments and eliminations

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.

Capital expenditure consists of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries. Inter-segment revenues are eliminated on consolidation. All other adjustments are part of the reconciliations presented further below.

Reconciliation of profit/(loss):

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Segment profit/(loss)	320,646	(73,281)
Finance income	3,389	2,213
Finance expense	(236,142)	(149,292)
Gain/(loss) on oil and foreign exchange derivatives	6,092	(23,413)
Profit/(loss) before tax	93,985	(243,773)

Revenue from two customers relating to the North Sea operating segment each exceed 10% of the Group's consolidated revenue arising from sales of crude oil, with the total amount of $580.5 million (2017: two customers; $206.1 million arising in the North Sea operating segment and $105.2 million in the Malaysia 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 $111.7 million located in Malaysia (2017: $119.1 million).

4. Remeasurements and exceptional items

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

Year ended 31 December 2017 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(7,716)	–	–	(7,716)
Cost of sales	9,726	(2,682)	(1,563)	5,481
Net impairment (charge)/reversal on oil and gas assets	–	(171,971)	–	(171,971)
Other income	1,685	193	48,735	50,613
Other expenses	–	(19)	(20,339)	(20,358)
Finance costs	–	–	(272)	(272)
	3,695	(174,479)	26,561	(144,223)
Tax on items above	(1,473)	65,730	5,482	69,739
Other tax exceptional items(iv)	–	–	47,208	47,208
	2,222	(108,749)	79,251	(27,276)

(i) Fair value remeasurements include unrealised mark-to-market movements on derivative contracts and other financial instruments where the Group does not classify them as effective hedges. It also includes the impact of recycled realised gains and losses (including option premia) out of 'Remeasurements and exceptional items' and into 'Business performance' profit or loss. Refer to note 2 for further details on the Group's accounting policies for derivatives and 'Remeasurements and exceptional items'. In addition, this includes the fair value remeasurement of contingent consideration on the Magnus vendor loan of $9.7 million (2017: includes $1.3 million gain in respect of the disposal of the Ascent Resources loan notes)

(ii) Impairments and write offs includes an impairment of tangible oil and gas assets totalling $126.0 million (2017: impairment of $172.0 million). 2017 includes a charge of $2.7 million in relation to exceptional inventory write downs. Further details on the tangible impairment are provided in note 10

(iii) Other includes a $1.3 million loss in relation to the revaluation of the option to purchase the Magnus oil field and other interests and $74.3 million in relation to the step acquisition uplift of the original 25% equity acquired in 2017 (see note 29) (2017: $22.3 million purchase option, $16.1 million Thistle decommissioning option and $10.3 million 25% acquisition value, totalling a gain of $48.7 million). Other movements mainly relate to the derecognition of contingent consideration on future exploration of $5.3 million (see note 22) (2017: Charge of $10.3 million in relation to the 2014 PM8 cost recovery settlement agreement, a charge of $6.4 million for the cancellation of contracts and a charge of $2.8 million in relation to the provision on restricted cash). Other income also includes other items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year so as to facilitate comparison with prior periods and to better assess trends in financial performance

(iv) In 2017, other tax exceptional items included $13.2 million for the recognition of previously de-recognised tax losses, together with $34.0 million for the impact on deferred tax of a revision to the balance of non-qualifying expenditure

5. Revenue and expenses

(a) Revenue

The Group generates revenue through the sale of crude oil, gas and condensate, and the provision of infrastructure to its customers for tariff income. Other sources of revenue include amounts related to derivative contracts and rental income from operating leases.

The nature and effect of initially applying IFRS 15 on the Group's financial statements are disclosed in note 2.

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	1,237,600	636,966
Revenue from gas and condensate sales	43,063	2,822
Tariff revenue	3,936	7,029
Total revenue from contracts with customers	1,284,599	646,817
Rental income	7,205	7,074
Realised (losses)/gains on oil derivative contracts (see note 20(f))	(93,035)	(20,575)
Other operating revenue	2,236	1,851
Business performance revenue	1,201,005	635,167
Unrealised (losses)/gains on oil derivative contracts(i) (see note 20(f))	97,432	(7,716)
Total revenue and other operating income	1,298,437	627,451

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Revenue and expenses continued

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2018 $'000		Year ended 31 December 2017 $'000	
	North Sea	Malaysia	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**1,096,581**	**141,019**	519,694	117,272
Revenue from gas and condensate sales	**39,599**	**3,464**	549	2,273
Tariff revenue	**3,936**	**–**	7,029	–
Total revenue from contracts with customers	**1,140,116**	**144,483**	527,272	119,545

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

Contract balances

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

	2018 $'000	2017 $'000
Trade receivables	**69,857**	80,743

Trade receivables are non-interest-bearing and are generally on terms of 30 to 90 days post control gained by the customer. In 2018 and 2017, no provision was recognised for expected credit losses on trade receivables.

(b) Cost of sales

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Production costs	**396,880**	287,064
Tariff and transportation expenses	**68,446**	62,208
Realised loss/(gain) on foreign exchange derivative contracts(i) (see note 20(f))	**615**	4,848
Change in lifting position	**(14,332)**	(20,643)
Crude oil inventory movement	**(10,761)**	237
Depletion of oil and gas assets (see note 10)	**437,104**	223,135
Other cost of operations	**48,068**	12,657
Business performance cost of sales	**926,020**	569,506
Depletion of oil and gas assets (see note 10)	**–**	1,563
Write down of inventory	**–**	2,682
Unrealised (gains)/losses on foreign exchange derivative contracts(ii) (see note 20(f))	**(248)**	(9,726)
Unrealised (gains)/losses on carbon derivative contracts(ii) (see note 20(f))	**(2,062)**	–
Other expenses	**592**	–
Total cost of sales	**924,302**	564,025

(i) The realised loss on foreign exchange derivative contracts was $0.6 million for contracts related to operating expenditure (2017: loss of $4.8 million related to capital expenditure)

(ii) Unrealised gains and losses on foreign exchange derivative contracts which are held for trading are disclosed as exceptional in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Staff costs (see note 5(f))	**91,113**	79,138
Depreciation (see note 10)	**5,287**	4,500
Other general and administration costs	**32,764**	20,077
Recharge of costs to operations and joint venture partners	**(125,146)**	(102,867)
	4,018	848

(d) Other income

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Net foreign exchange gains	**21,911**	–
Prior year general and administrative expenses recovery	**–**	5,101
Other income	**517**	1,706
Business performance other income	**22,428**	6,807
Excess of fair value over consideration: 25% acquisition value (see note 29)	**–**	10,314
Excess of fair value over consideration: Purchase option (see note 29)	**(1,329)**	22,300
Excess of fair value over consideration: Thistle decommissioning option (see note 29)	**–**	16,120
Fair value gain on step acquisition (see note 29)	**74,345**	–
Contingent consideration release	**5,300**	–
Gain on disposal of financial assets	**–**	1,263
Change in provision for contingent consideration	**–**	423
Other exceptional income	**–**	193
Total other income	**100,744**	57,420

(e) Other expenses

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Net foreign exchange losses	**–**	23,910
Exploration and evaluation expenses: Pre-licence costs expensed	**40**	43
Other	**3,322**	410
Business performance other expenses	**3,362**	24,363
Change in provision for contingent consideration	**9,590**	–
2014 PM8 cost recovery settlement agreement	**–**	10,329
Early termination of contracts	**–**	6,435
Write down of receivable	**3,010**	2,808
Exploration and evaluation expenses: Written off and impaired	**1,407**	–
Other expenses	**708**	786
Total other expenses	**18,077**	44,721

(f) Staff costs

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Wages and salaries	**56,316**	48,773
Social security costs	**4,487**	4,686
Defined contribution pension costs	**4,210**	3,057
Expense of share-based payments (see note 18)	**4,645**	2,849
Other staff costs	**4,731**	2,486
Total employee costs	**74,389**	61,851
Contractor costs	**16,724**	17,287
Total staff costs	**91,113**	79,138

The average number of persons employed by the Group during the year was 839, with 415 in operating activities and 424 in administrative functions (2017: 506, with 343 in operating activities and 163 in administrative functions).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Revenue and expenses continued

(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 2018 $'000	Year ended 31 December 2017 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**721**	584
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**108**	114
Audit related assurance services (interim review)	**134**	181
Tax advisory services	**5**	5
Corporate finance services[(i)]	**368**	–
	615	300
Total auditor's remuneration	**1,336**	884

(i) Relates to the reporting accountant's report on the unaudited pro forma financial information in the Company's combined prospectus and circular for the rights issue (see note 17)

6. Finance costs/income

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Finance costs:		
Loan interest payable	**93,413**	74,434
Bond interest payable	**64,243**	63,463
Unwinding of discount on decommissioning provisions (see note 22)	**12,617**	11,471
Unwinding of discount on other provisions (see note 22)	**917**	1,838
Unwinding of discount on financial liabilities (see note 20(g))	**72**	163
Fair value (gain)/loss on financial instruments at FVPL (see note 20(f))	**353**	(15)
Finance charges payable under finance leases	**55,837**	31,273
Amortisation of finance fees on loans and bonds	**8,525**	2,760
Other financial expenses	**1,666**	5,902
	237,643	191,289
Less: amounts capitalised to the cost of qualifying assets	**(1,529)**	(42,269)
Business performance finance expenses	**236,114**	149,020
Unwinding of discounts on other provisions	**28**	272
	236,142	149,292
Finance income:		
Bank interest receivable	**1,821**	381
Unwinding of discount on financial asset (see note 20(g))	**1,517**	1,832
Other financial income	**51**	–
	3,389	2,213

7. Income tax

(a) Income tax

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

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Current income tax		
Current income tax charge	**17,764**	214
Adjustments in respect of current income tax of previous years	**–**	(932)
Current overseas income tax		
Current income tax charge	**16,048**	11,191
Adjustments in respect of current income tax of previous years	**420**	263
Total current income tax	**34,232**	10,736
Deferred income tax		
Relating to origination and reversal of temporary differences	**(61,879)**	(202,173)
Adjustments in respect of changes in tax rates	**(4,404)**	–
Adjustments in respect of deferred income tax of previous years	**(2,304)**	14,469
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**612**	(5,840)
Adjustments in respect of deferred income tax of previous years	**450**	(135)
Total deferred income tax	**(67,525)**	(193,679)
Income tax (credit)/expense reported in profit or loss	**(33,293)**	(182,943)

(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 2018 $'000	Year ended 31 December 2017 $'000
Profit/(loss) before tax	**93,985**	(243,773)
Statutory rate of corporation tax in the UK of 40% (2017: 40%)	**37,594**	(97,509)
Supplementary corporation tax non-deductible expenditure	**20,284**	21,170
Non-deductible expenditure/income[(i)]	**(21,689)**	(7,673)
Petroleum revenue tax (net of income tax benefit)	**–**	3,703
North Sea tax reliefs	**(64,228)**	(93,234)
Tax in respect of non-ring fence trade	**691**	(9,085)
Tax losses not recognised	**1,509**	(11,230)
Deferred tax rate changes	**(4,404)**	–
Adjustments in respect of prior years	**(1,434)**	13,665
Overseas tax rate differences	**(673)**	(4,163)
Share-based payments	**899**	1,475
Other differences	**(1,842)**	(62)
At the effective income tax rate of 17% (2017: 75%)	**(33,293)**	(182,943)

(i) The 2018 credit is mainly due to the non-taxable 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 2018

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	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Deferred tax liability				
Accelerated capital allowances	**1,400,956**	1,163,562	**93,196**	28,290
	1,400,956	1,163,562		
Deferred tax asset				
Losses	**(1,212,988)**	(1,228,034)	**15,046**	(167,998)
Decommissioning liability	**(267,954)**	(254,008)	**(13,946)**	(68,590)
Other temporary differences	**(178,920)**	(17,098)	**(161,821)**	14,619
	(1,659,862)	(1,499,140)		
Deferred tax expense			**(67,525)**	(193,679)
Net deferred tax (assets)/liabilities	**(258,906)**	(335,578)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(286,721)**	(398,263)		
Deferred tax liabilities	**27,815**	62,685		
Net deferred tax (assets)/liabilities	**(258,906)**	(335,578)		

Reconciliation of net deferred tax assets/(liabilities)

	2018 $'000	2017 $'000
At 1 January	**335,578**	191,715
Tax income/(expense) during the period recognised in profit or loss	**67,525**	193,679
Deferred taxes acquired (see note 29)	**(144,197)**	(49,816)
At 31 December	**258,906**	335,578

(d) Tax losses

The Group's deferred tax assets at 31 December 2018 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. In accordance with IAS 12 Income Taxes, the Group assessed the recoverability of its deferred tax assets at 31 December 2018 with respect to ring fence tax losses and allowances.

The Group has unused UK mainstream corporation tax losses of $287.5 million (2017: $290.2 million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of 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 $34.4 million remaining unrecognised.

The Group has unused Malaysian income tax losses of $9.4 million (2017: $5.2 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) Change in legislation

Finance Act 2017 enacted legislation in relation to the restriction of corporate interest deductions from 1 April 2017 and the restriction of relief for mainstream corporate tax losses with effect from 1 April 2017. While these changes do not impact North Sea ring fence of relief for mainstream corporate tax losses with effect from 1 April 2017, they have an impact on the current year Group tax charge where North Sea ring fence losses are offset against mainstream corporate tax profits which would otherwise be exposed due to the operation of these new rules. The restriction had no impact on the current year tax charge (2017: $15.1 million).

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.

Following the completion of the rights issue in October 2018 the earnings per share calculations, for all periods up to the date the rights issue shares were issued, have been adjusted for the bonus element of the rights issue. The bonus factor used was 1.17. Further information on the rights issue is included in note 17.

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	
	2018 $'000	2017 $'000	**2018 million**	2017(i) million	**2018 $**	2017(i) $
Basic	**127,278**	(60,830)	**1,226.2**	1,319.8	**0.104**	(0.046)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**37.8**	53.0	**(0.003)**	–
Diluted	**127,278**	(60,830)	**1,264.0**	1,372.9	**0.101**	(0.046)
Basic (excluding exceptional items)	**78,195**	(33,554)	**1,226.2**	1,319.8	**0.064**	(0.025)
Diluted (excluding exceptional items)	**78,195**	(33,554)	**1,264.0**	1,372.9	**0.062**	(0.025)

(i) Restated following rights issue

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2018 (2017: none). At 31 December 2018, there are no proposed dividends (2017: none).

10. Property, plant and equipment

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Total $'000
Cost:			
At 1 January 2017	6,787,343	54,722	6,842,065
Additions	320,627	2,994	323,621
Initial recognition of finance lease asset (see note 24)	771,975	–	771,975
Acquired (see note 29)	124,542	–	124,542
Change in decommissioning provision	143,992	–	143,992
Change in cost recovery provision (see note 22)	(77,785)	–	(77,785)
At 31 December 2017	**8,070,694**	**57,716**	**8,128,410**
Additions	**178,627**	**2,856**	**181,483**
Acquired (see note 29)	**745,350**	**–**	**745,350**
Acquired: Change in fair value on step acquisition (see note 29)	**123,909**	**–**	**123,909**
Change in decommissioning provision (see notes 12 and 22)	**30,194**	**–**	**30,194**
Change in cost recovery provision (see note 22)	**(7,947)**	**–**	**(7,947)**
Change in financial carry liability (see note 20)	**(1,066)**	**–**	**(1,066)**
Change in estimate	**(2,195)**	**–**	**(2,195)**
At 31 December 2018	**9,137,566**	**60,572**	**9,198,138**
Accumulated depletion and impairment:			
At 1 January 2017	3,846,028	32,591	3,878,619
Charge for the year	224,698	4,500	229,198
Impairment charge for the year	171,971	–	171,971
At 31 December 2017	**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	**4,805,847**	**42,378**	**4,848,225**
Net carrying amount:			
At 31 December 2018	**4,331,719**	**18,194**	**4,349,913**
At 31 December 2017	3,827,997	20,625	3,848,622
At 1 January 2017	2,941,315	22,131	2,963,446

On 1 December 2018, the Group acquired the remaining 75% interest in the Magnus oil field and associated interests (see note 29), resulting in an acquisition of assets at a value of $745.4 million allocated to property, plant and equipment.

The Group acquired the initial 25% interest in the Magnus oil field and associated interests in 2017 (see note 29), resulting in an acquisition of assets at a value of $124.5 million allocated to property, plant and equipment. As part of the step acquisition to 100% the initial interest of 25% was revalued, resulting in an increase of $123.9 million.

During the year ended 31 December 2017, the Group's lease from Armada Kraken PTE Limited ('BUMI') of the Floating Production, Storage and Offloading vessel ('FPSO') for the Kraken field commenced. The lease has been assessed as a finance lease, and a $772.0 million lease liability and lease asset were recognised in June 2017. The liability was calculated based on the present value of the minimum lease payments at inception of the lease (see note 24).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

10. Property, plant and equipment continued

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[iii]	
	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	**31 December 2018 $'000**	31 December 2017 $'000
North Sea[i]	**(125,009)**	(187,716)	**158,890**	301,731
Malaysia[ii]	**(1,037)**	15,745	**41,488**	48,301
Net impairment reversal/(charge)	**(126,046)**	(171,971)		

(i) North Sea includes Thistle/Deveron and the Dons fields. The impairments are attributable primarily to changes in field life assumptions
(ii) The amounts disclosed for Malaysia relate to the Tanjong Baram field
(iii) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 11 for further details of methodology and assumptions used, and note 2 Critical Accounting Estimates and Judgements for information on 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 net book value at 31 December 2018 includes $95.4 million (2017: $71.1 million) of pre-development assets and development assets under construction which are not being depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2018 was $1.5 million and relates to the Dunlin Bypass project (2017: $42.3 million relating to the Kraken development project). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 7.7% (2017: 7.0%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2018 was $690.7 million (2017: $756.3 million).

11. Goodwill

A summary of goodwill is presented below:

	2018 $'000	2017 $'000
Cost and net carrying amount		
At 1 January	**189,317**	189,317
Acquisition (see note 29)	**94,633**	–
At 31 December	**283,950**	189,317

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 29).

The historic goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Goodwill 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.

Impairment testing of oil and gas assets and goodwill

In accordance with IAS 36 Impairment of Assets, goodwill and oil and gas assets have been reviewed for impairment at the year end. In assessing whether goodwill and oil and gas assets have been impaired, the carrying amount of the CGU for goodwill and at field level for oil and gas assets is compared with their recoverable amounts.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis at the Group's post-tax discount rate of 10.0% (2017: 10.0%). Risks specific to assets within the CGU are reflected within the cash flow forecasts.

The goodwill on the acquisition of Magnus is assessed to be fully recoverable as at 31 December 2018.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:

- Oil prices;
- Currency exchange rates;
- Production volumes;
- Discount rates; and
- Opex, capex and decommissioning costs.

Oil prices are based on an internal view of forward curve prices for the first three years and thereafter at $75/bbl inflated at 2% per annum from 2023.

Production volumes are based on life of field production profiles for each asset within the CGU. The production volumes used in the calculations were taken from the report prepared by the Group's independent reserves auditor.

Operating expenditure, capital expenditure and decommissioning costs are derived from the Group's Business Plan adjusted for changes in timing based on the production model used for the assessment of proven and probable ('2P') reserves.

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% (2017: 10.0%). Management considers this to be the best estimate of a market participant's discount rate.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount of the CGU would be equal to the carrying amount of goodwill if either the oil price or production volumes (on a CGU-weighted average basis) were to fall by 5% (2017: 7%) from the prices outlined above and volumes disclosed in the Annual Report. Goodwill would need to be fully impaired if the oil price or production volumes (on a CGU-weighted average basis) were to fall by 31% from the prices outlined above (2017: 16%). The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant.

12. Intangible oil and gas assets

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 1 January 2017	229,524	(179,192)	50,332
Additions	1,076	–	1,076
Write off of relinquished licences previously impaired	(3,076)	3,076	–
Unsuccessful exploration expenditure written off	–	159	159
Change in decommissioning provision (see note 22)	502	–	502
Impairment charge for the year	–	34	34
At 31 December 2017	**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 note 22)	**(286)**	**–**	**(286)**
Impairment charge for the year	**–**	**(398)**	**(398)**
At 31 December 2018	**165,586**	**(113,783)**	**51,803**

During the year ended 31 December 2018, the Group relinquished licences previously impaired resulting in write off of $63.5 million. During 2018, the Group developed the Eagle prospect (2017: Kraken field) resulting in the additions to intangibles.

13. Investments

	$'000
Cost:	
At 1 January 2017, 31 December 2017 and 31 December 2018	19,231
Provision for impairment:	
At 1 January 2017	(19,060)
Impairment reversal/(charge) for the year	(19)
At 31 December 2017	**(19,079)**
Impairment (charge)/reversal for the year	**(121)**
At 31 December 2018	**(19,200)**
Net carrying amount:	
At 31 December 2018	**31**
At 31 December 2017	152
At 1 January 2017	171

The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in a non-cash impairment charge of $0.1 million in the year to 31 December 2018 (2017: $0.02 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

14. Inventories

	2018 $'000	2017 $'000
Crude oil	**23,183**	12,422
Well supplies	**77,349**	65,623
	100,532	78,045

During 2018, inventories of $5.8 million (2017: $2.9 million) were recognised within cost of sales in the statement of comprehensive income. Included within this balance is $5.8 million as a result of the write down of inventories to net realisable value (2017: $2.7 million). The write downs are included in cost of sales.

15. Trade and other receivables

	2018 $'000	2017 $'000
Current		
Trade receivables	**69,857**	80,743
Joint venture receivables	**84,745**	87,037
Under-lift position	**81,173**	32,299
VAT receivable	**–**	11,739
Other receivables	**14,741**	1,844
	250,516	213,662
Prepayments and accrued income	**25,293**	14,092
	275,809	227,754

Trade receivables are non-interest-bearing and are generally on 15 to 30 day terms. Trade receivables are reported net of any provisions for impairment. As at 31 December 2018, no impairment provision for trade receivables was necessary (2017: $nil).

Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners and were not impaired. Under-lift is valued at market prices prevailing at the balance sheet date. As at 31 December 2018, no other receivables were determined to be impaired (2017: none).

The carrying value of the Group's trade, joint venture and other receivables as stated above is considered to be a reasonable approximation to their fair value largely due to their short-term maturities.

As per the application of IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. 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). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. 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.

16. Cash and cash equivalents

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. Included within the cash balance at 31 December 2018 is restricted cash of $3.4 million (2017: $3.5 million). Of this, $2.8 million relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2017: $2.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

Cash and cash equivalents also include an amount of $3.4 million (2017: $3.9 million) 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 Tanjong Baram project finance loan.

At 31 December 2018, $6.6 million (2017: $7.0 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

17. Share capital and 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 2018	1,186,084,304	85,105	125,297	210,402
Issuance of equity shares	508,321,844	33,077	105,849	138,926
Expenses on issue of equity shares	–	–	(3,997)	(3,997)
At 31 December 2018	**1,694,406,148**	**118,182**	**227,149**	**345,331**

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 2018, there were 73,180,394 shares held by the Employee Benefit Trust (2017: 56,023,671). On 22 October 2018, 22,126,481 shares were acquired by the Employee Benefit Trust pursuant to the rights issue. The remainder of the movement in the year is 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. 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 the year.

18. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan. A Sharesave Plan was approved in 2012.

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

	2018 $'000	2017 $'000
Deferred Bonus Share Plan	**649**	1,069
Restricted Share Plan	**668**	1,024
Performance Share Plan	**2,126**	(68)
Sharesave Plan	**801**	230
Executive Director bonus awards	**401**	594
	4,645	2,849

The fair value of awards is calculated 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 following disclosure and tables shows the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which have vested and are exercisable at the end of each year. The awards have been adjusted for the effect of the rights issue.

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 his or her 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:

	2018	2017
Weighted average fair value per share	**36p**	37p

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

	2018 Number	2017 Number
Outstanding at 1 January	**2,631,797**	2,508,026
Granted during the year[(i)]	**1,007,312**	1,357,040
Vested during the year	**(1,407,040)**	(1,214,427)
Forfeited during the year	**(71,342)**	(18,842)
Outstanding at 31 December	**2,160,727**	2,631,797
Exercisable at 31 December	**–**	–

(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

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 0.9 years (2017: 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

18. Share-based payment plans continued

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:

	2018	2017
Weighted average fair value per share	**32p**	33p

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

	2018 Number	2017 Number
Outstanding at 1 January	**12,180,771**	12,564,319
Granted during the year(i)	**1,789,377**	587,216
Vested during the year	**(240,515)**	(893,465)
Forfeited during the year	**(1,056,880)**	(77,299)
Outstanding at 31 December	**12,672,753**	12,180,771
Exercisable at 31 December	**4,037,914**	3,451,209

(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

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 5.0 years (2017: 4.8 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:

	2018	2017
Weighted average fair value per share	**32p**	33p

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

	2018 Number	2017 Number
Outstanding at 1 January	**70,181,724**	61,023,323
Granted during the year(i)	**27,186,417**	16,302,086
Vested during the year	**(1,160,744)**	(2,412,846)
Forfeited during the year	**(14,070,898)**	(4,730,839)
Outstanding at 31 December	**82,136,499**	70,181,724
Exercisable at 31 December	**3,540,460**	2,816,844

(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

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 4.0 years (2017: 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.

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:

	2018	2017
Weighted average fair value per share	**26p**	8p

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

	2018 Number	2017 Number
Outstanding at 1 January	**12,834,269**	12,657,432
Granted during the year(i)	**26,069,708**	1,299,185
Vested during the year	**(1,614,746)**	(17,213)
Forfeited during the year	**(1,541,554)**	(1,105,135)
Outstanding at 31 December	**35,747,677**	12,834,269
Exercisable at 31 December	**–**	–

(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

The weighted average contractual life for the share options outstanding as at 31 December 2018 was 2.6 years (2017: 1.7 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:

	2018	2017
Weighted average fair value per share	**39p**	39p

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

	2018 Number	2017 Number
Outstanding at 1 January	**2,445,722**	2,869,393
Granted during the year(i)	**714,064**	779,846
Cash settled in the year	**–**	(726,505)
Vested during the year	**(1,949,074)**	(477,012)
Outstanding at 31 December	**1,210,712**	2,445,722
Exercisable at 31 December	**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

The weighted average contractual life for the share awards outstanding as at 31 December 2018 was 0.6 years (2017: 0.6 years).

19. Loans and borrowings

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

	2018			2017		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	**799,444**	**–**	**799,444**	1,099,966	–	1,099,966
Oz Management facility	**178,524**	**(3,325)**	**175,199**	–	–	–
Crude oil prepayment	**22,222**	**(111)**	**22,111**	75,556	(378)	75,178
SVT working capital facility	**15,747**	**–**	**15,747**	25,622	–	25,622
Tanjong Baram project financing facility	**31,730**	**–**	**31,730**	8,531	(292)	8,239
Trade creditor loan	**2,500**	**–**	**2,500**	10,000	–	10,000
Total loans	**1,050,167**	**(3,436)**	**1,046,731**	1,219,675	(670)	1,219,005
Due within one year			**311,261**			330,012
Due after more than one year			**735,470**			888,993
Total loans			**1,046,731**			1,219,005

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

19. Loans and borrowings continued
Credit facility
In October 2013, the Group entered into a six-year $1.7 billion multi-currency revolving credit facility (the 'RCF'), comprising of a committed amount of $1.2 billion (subject to the level of reserves) with a further $500 million available through an accordion structure. Interest on the RCF was payable at LIBOR plus a margin of 2.50% to 4.25%, dependent on specified covenant ratios.

On 21 November 2016, pursuant to restructuring, the Group 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 extended to October 2021;
- Amortisation profile amended, with 1 April 2018 the 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 LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at 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;
- Accordion feature cancelled; and
- $12 million waiver fee payable to lenders on 31 March 2018.

The Group concluded that the above amendments to the RCF are a substantial modification, resulting in the previous loan carrying amount of $1,002.3 million ($1,017.3 million principal less unamortised issuance costs of $15.0 million) being derecognised and a new loan of $1,017.3 million being recognised at fair value. The difference of $15.0 million, which equated to the unamortised fees of the previous loan, was recognised as loss on extinguishment. The $12.0 million waiver fee along with $11.1 million of advisers' fees were directly attributable to the modification of the RCF and were also expensed as part of the loss on extinguishment.

During November 2017, the Group agreed additional amendments to its term loan and revolving credit facility. These changes included the deferral of the scheduled $140 million reduction in the term loan facility from 1 April 2018 to 1 October 2018.

At 31 December 2018, the carrying amount of the credit facility on the balance sheet was $799.4 million, comprising the loan principal drawn down of $785.0 million, plus $14.4 million of interest capitalised to the PIK amount (2017: $1,100.0 million, being loan principal drawn down of $1,095.2 million plus $4.8 million of interest capitalised to the PIK amount).

At 31 December 2018, after allowing for letter of credit utilisation of $6.6 million, $68.4 million remained available for drawdown under the credit facility (2017: $7.0 million and $97.8 million respectively).

Oz Management facility
On 24 September 2018, the Group entered into a $175.0 million financing facility with Oz Management 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. If second ranking security interest in respect of the assets secured under the credit facility is obtained within six months of the financial close of the Oz Management facility, the interest rate shall decrease to 5.75% annual effective rate plus one-month USD LIBOR.

Crude oil prepayment transaction
On 25 October 2017, the Group entered into an $80 million crude oil prepayment with Mercuria Energy Trading SA.

Repayment is made in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 MMbbls of oil. EnQuest will receive 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 is payable at one-month USD LIBOR plus a margin of 7.0%. The prepayment transaction is being undertaken on an unsecured basis.

At 31 December 2018, the carrying amount of the prepayment on the balance sheet was $22.2 million (2017: $75.6 million).

SVT working capital facility
On 1 December 2017, EnQuest NNS Limited entered into a £42 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 (see note 29). 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 on 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% per annum.

Trade creditor loan
In October 2016, the Group borrowed $40 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan will be paid in full in 2019.

Bonds

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

	2018			2017		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
High yield bond	760,553	(6,475)	754,078	720,827	(8,467)	712,360
Retail bond	237,778	(1,574)	236,204	224,048	(2,057)	221,991
Total bonds due after more than one year	**998,331**	**(8,049)**	**990,282**	944,875	(10,524)	934,351

High yield bond

In April 2014, the Group issued a $650 million high yield bond with an originally scheduled maturity of 15 April 2022 and paying a 7.0% coupon semi-annually in April and October.

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.

The fair value of the high yield bond was estimated to be $534.4 million (2017: $519.9 million). The price quoted for the retail bond was used to estimate the fair value of the high yield bond on the basis that, since the restructuring, both bonds carry similar rights.

Retail bond

In 2013, the Group issued a £155 million retail bond with an originally scheduled maturity of 15 February 2022 and paying a 5.5% coupon semi-annually in February and August. For the interest period commencing 15 August 2016, in accordance with the terms of the bond, the rate of interest increased to 7.0% following the determination of the Company's leverage ratio at 31 December 2015.

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.

The bond had a fair value of $156.8 million (2017: $161.6 million). The fair value of the retail bond has been determined by reference to the price available from the market on which the bond is traded.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

20. Other financial assets and financial liabilities

(a) Summary

	2018		2017	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Financial liabilities at fair value through profit or loss:				
Commodity contracts	**54,733**	**142**	–	41,996
Foreign exchange contracts	**248**	**–**	–	–
Carbon contracts	**2,077**	**–**	–	–
Financial liabilities at amortised cost:				
Other liabilities	**–**	**–**	–	19,211
Financial assets at fair value through OCI:				
Interest rate swap designated as cash flow hedge	**–**	**–**	36	–
Financial assets at amortised cost:				
Other receivables	**9,517**	**–**	61,701	–
Total current	**66,575**	**142**	61,737	61,207
Financial liabilities at amortised cost:				
Other liabilities	**–**	**–**	–	7,121
Financial assets at amortised cost:				
Other receivables	**5,958**	**–**	8,191	–
Total non-current	**5,958**	**–**	8,191	7,121

(b) Oil commodity contracts

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

Commodity derivative contracts are designated as at FVPL, and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, bought put options and commodity swap contracts.

For the year ended 31 December 2018, gains totalling $4.4 million (2017: losses of $28.3 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $93.0 million (2017: losses of $20.6 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling $97.4 million (2017: losses of $7.7 million). Of the realised amounts recognised during the year, a loss of $17.2 million (2017: loss of $10.4 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 million (see note 19). The collar includes 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. Included in the total gains for the year ended 31 December 2018, a loss of $8.0 million was recognised in 'Business performance' revenue (2017: loss of $5.2 million).

The mark-to-market of the Group's open contracts as at 31 December 2018 was an asset of $54.7 million (2017: liability of $42.0 million). The position includes a loss of $0.1 million in respect of fixed price swap contracts for 200,000 barrels of 2019 production at a weighted average price of $54.6/bbl (2017: loss of $29.2 million in respect of fixed price swap contracts for 4,150,000 barrels of 2018 production at a weighted average price of $59.1/bbl).

(c) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, including Sterling, Euros, Swedish Krona, Norwegian Krone and United Arab Emirates Dirhams. During the year ended 31 December 2018, losses totalling $0.4 million (2017: gain of $0.4 million) were recognised in the income statement. This included losses totalling $0.6 million (2017: $nil) realised on contracts maturing in the year.

The mark-to-market of the Group's open contracts as at 31 December 2018 was $0.2 million (2017: $nil).

(d) Interest rate swap

During the year ended 31 December 2015, the Group entered an interest rate swap which effectively swaps 50% of floating USD LIBOR rate interest on the Group's Malaysian loan into a fixed rate of 1.035% until 2018. The swap, which is effective from a hedge accounting perspective, completed in the year with a loss of $0.4 million recognised within finance expenses on the income statement (2017: gain of $0.02 million). The net asset fair value at 31 December 2017 was $0.04 million.

(e) Carbon commodity contracts

During the year the Group entered forward carbon commodity contracts to manage its exposure to compliance with European emissions regulations. The contracts are designated as at FVPL and gains and losses on these contracts are recognised as a component of cost of sales.

For the year ended 31 December 2018, unrealised gains of $2.1 million (2017: $nil) were recognised in respect of carbon commodity contracts designated as FVPL. No contracts matured during the year.

The mark-to-market of the Group's open contracts as at 31 December 2018 was $2.1 million (2017: $nil).

(f) Income statement impact

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

	Revenue and other operating income		Cost of sales		Finance costs	
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)**	**–**

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2017	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000
Call options	880	(18,670)	–	–	–	–
Commodity swaps	(23,754)	14,144	–	–	–	–
Commodity futures	(437)	(363)	–	–	–	–
Purchase and sale of crude oil	2,736	(2,827)	–	–	–	–
Foreign exchange swap contracts	–	–	–	433	–	–
Other forward currency contracts	–	–	(4,848)	9,293	–	–
Interest rate swap	–	–	–	–	15	(38)
	(20,575)	(7,716)	(4,848)	9,726	15	(38)

(g) Other receivables and liabilities

	Other receivables $'000	Other liabilities $'000
At 1 January 2017	59,757	19,767
Additions on acquisition	38,420	6,742
Disposed during the year	(3,561)	–
Change in fair value	627	(340)
Utilised during the year	(27,209)	–
Unwinding of discount	1,832	163
Foreign exchange	26	–
At 31 December 2017	**69,892**	**26,332**
Exercised on acquisition (see note 29)	**(20,970)**	**–**
Change in fair value	**(51)**	**(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	**15,475**	**–**
Current	**9,517**	**–**
Non-current	**5,958**	**–**
	15,475	**–**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

20. Other financial assets and financial liabilities continued
Other receivables

Comprised of:	**2018 $'000**	2017 $'000
BUMI receivable	**15,475**	24,407
Purchase option	**–**	22,300
Thistle decommissioning option	**–**	16,120
KUFPEC receivable	**–**	7,065
Total	**15,475**	69,892

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 and onwards. Included within other receivables at 31 December 2018 is an amount of $15.5 million representing the discounted value of EnQuest's share of these repayments (2017: $24.4 million). A total of $9.1 million was collected during the period. Unwinding of discount of $0.2 million (2017: $1.6 million) is included within finance costs in the 12 months ended 31 December 2018.

As part of the Magnus and other interests' acquisition (see note 29), the Group had an option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure. The option was exercised on 1 December 2018 and in line with the accounting for step acquisitions the option was remeasured at fair value resulting in a loss of $1.3 million which was recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

As part of the Magnus and other interests' acquisition, the Group also entered into an option to undertake the decommissioning of Thistle. At 31 December 2017, the receivable had a carrying value of $16.1 million. The option was exercised in the year and a total of $50.0 million was received with the corresponding liability of $33.6 million recognised within provisions (see note 22).

As part of the 2012 farm-out to the Kuwait Foreign Petroleum Exploration Company ('KUFPEC') of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of $23.3 million over a 36-month period after Alma/Galia is deemed to be fully operational. During the year ended 31 December 2018, the arrangement was completed and $7.1 million was received. At 31 December 2017, the receivable had a carrying value of $7.1 million.

Other liabilities

Comprised of:	**2018 $'000**	2017 $'000
Accrued waiver fee	**–**	12,000
Financial carry	**–**	7,211
Decommissioning of Magnus and other interests option	**–**	4,214
Other	**–**	2,907
Total	**–**	26,332

As part of the agreement to acquire an interest in the PM8/Seligi assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. Well commitments were performed during the year and the liability was released during the year. At 31 December 2017, the liability had a carrying value of $7.2 million.

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

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(i)	54,733	–	54,733	–
Foreign currency derivative contracts(ii)	248	–	248	–
Carbon commodity derivative contracts(ii)	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(i)	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 finance leases	708,950	–	–	708,950
Retail bond	156,764	156,764	–	–
High yield bond	534,363	–	534,363	–

31 December 2017	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 asset at FVPL				
Interest rate swap[ii]	36	–	36	–
Other financial assets at FVPL				
Quoted equity shares	152	152	–	–
Assets for which fair values are disclosed				
Thistle decommissioning option	16,120	–	–	16,120
Purchase option	22,300	–	–	22,300
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Commodity derivative contracts[i]	41,996	–	41,996	–
Other financial liability at FVPL				
Decommissioning of Magnus and other interests option	4,214	–	–	4,214
Contingent consideration	83,166	–	–	83,166
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings	1,219,675	–	–	1,219,675
Obligations under finance leases	797,933	–	–	797,933
Retail bond	161,595	161,595	–	–
High yield bond	519,896	–	519,896	–

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

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 or indirectly observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between Level 1 and Level 2 during the period (2017: no transfers).

For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the Group uses the valuation processes to decide its valuation policies and procedures and analyse changes in fair value measurements from period to period. Level 3 financial instruments consist of interest-bearing loans and borrowings (see note 19) and provisions (see note 22), which are valued in accordance with the Group's accounting policies.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

22. Provisions

	Decommissioning provision $'000	Carry provision $'000	Cost recovery provision $'000	Contingent consideration $'000	Surplus lease provision $'000	Other provisions $'000	Total $'000
At 1 January 2017	493,891	5,491	89,529	22,580	2,816	–	614,307
Additions during the year	63,613	–	10,329	3,131	–	–	77,073
Acquisitions (see note 29)	–	–	–	66,623	–	–	66,623
Changes in estimates	80,881	–	(77,785)	(423)	194	–	2,867
Unwinding of discount	11,471	–	1,838	255	17	–	13,581
Utilisation	(10,605)	(5,491)	–	(9,000)	(394)	–	(25,490)
Foreign exchange	–	–	–	–	253	–	253
At 31 December 2017	**639,251**	**–**	**23,911**	**83,166**	**2,886**	**–**	**749,214**
Additions during the year	**–**	**–**	**–**	**–**	**–**	**41,856**	**41,856**
Acquisitions (see note 29)	**–**	**–**	**–**	**625,296**	**–**	**–**	**625,296**
Changes in estimates	**29,908**	**–**	**(7,947)**	**8,595**	**–**	**657**	**31,213**
Unwinding of discount	**12,617**	**–**	**260**	**20**	**8**	**–**	**12,905**
Utilisation	**(10,036)**	**–**	**(5,261)**	**(56,641)**	**(409)**	**–**	**(72,347)**
Classification update	**–**	**–**	**(5,068)**	**–**	**–**	**4,214**	**(854)**
Foreign exchange	**–**	**–**	**–**	**–**	**(141)**	**–**	**(141)**
At 31 December 2018	**671,740**	**–**	**5,895**	**660,436**	**2,344**	**46,727**	**1,387,142**
Classified as:							
Current	10,395	–	–	69,680	388	587	81,050
Non-current	661,345	–	5,895	590,756	1,956	46,140	1,306,092
	671,740	–	5,895	660,436	2,344	46,727	1,387,142

Decommissioning provision
The Group makes full provision for the future contractual costs of decommissioning its production facilities and pipelines on a discounted basis.

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. The liability is discounted at a rate of 2.0% (2017: 2.0%). The unwinding of the discount is classified as a finance cost (see note 6).

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.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2018 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2018, the Group held surety bonds totalling $123.2 million (2017: $129.6 million).

Carry provision
Consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil PLC in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which took place in Q2 2016. During 2017, $5.5 million of the carry had been paid, with no remaining liability recognised on the balance sheet as at 31 December 2018 (2017: $nil).

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

A provision has been made for the expected payments that the Group will make to KUFPEC. The assumptions made in arriving at the projected cash payments are consistent with the assumptions used in the Group's 2018 year end impairment test, and the resulting cash flows were included in the determination of the recoverable value of the project. In establishing when KUFPEC has recovered its capital cost to first oil, the farm-in agreement requires the use of the higher of the actual oil price, or $90/bbl real, inflated at 2.0% per annum from 2012. These cash flows have been discounted at a rate of 2.0% (2017: 2.0%).

During 2017, the Group entered into discussions with PETRONAS in relation to the prior period PM8 cost recovery. During 2017, a provision was made for the expected payments that the Group will make as part of the settlement agreement. During the year ended 31 December 2018, $5.3 million was paid. At 31 December 2018, the remaining balance to be paid was recognised within accruals for a value of $5.1 million (2017: $10.3 million).

Contingent consideration
As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes field development plan ('FDP') approval and 'first oil'. EnQuest paid $3.0 million in November 2015, following FDP approval in October 2015, and $9.0 million during 2017. During 2018, $8.0 million was paid with no remaining liability recognised on the balance sheet as at 31 December 2018 (2017: $8.1 million). Change in estimate of $0.1 million is included within finance costs for the year ended 31 December 2018 (2017: $0.4 million).

In addition, there was potential consideration due subject to future exploration success which, having been reassessed, are deemed not to be probable. No remaining liability has been recognised on the balance sheet as at 31 December 2018 (2017: $5.3 million). The reversal of provision is included within other income for the year ended 31 December 2018.

On 1 December 2017, the acquisition of the initial 25% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') was funded through a vendor loan from BP (see note 29). The loan is repayable solely out of the cash flows, which are achieved above operating cash flows from the acquired assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% (2017: 10.0%) and assumed repayment of around three years. A total of $48.6 million was repaid during 2018. Change in fair value of $9.7 million is recognised within finance costs in the 12 months ended 31 December 2018. The provision of $33.9 million is expected to be paid during 2019, as disclosed within current provisions (2017: $69.8 million).

On 1 December 2018, the acquisition of the additional 75% interest in the Magnus oil field and associated interests (see note 29) was part funded through a vendor loan and profit share arrangement with BP, originally recognised at a discounted value of $625.3 million. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from Magnus and is secured over the acquired assets. The loan accrues interest at a rate of 7.5% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment over the life of the field.

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. The provision has been discounted using a 2.0% discount rate (2017: 2.0%). At 31 December 2018, the provision was $2.3 million (2017: $2.9 million).

Other provisions
As part of the Magnus and associated interests acquisition (see note 29), EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2018, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Magnus on an after-tax basis was $12.6 million (2017: $4.2 million).

The Thistle decommissioning option was exercised during the year resulting in receipt of cash of $50.0 million. At 31 December 2018, 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 $33.6 million (2017: $nil). Unwinding of discount of $0.7 million is included within finance income for the year ended 31 December 2018 (2017: $nil).

23. Trade and other payables

	2018 $'000	2017 $'000
Current		
Trade payables	**162,686**	144,584
Accrued expenses	**296,758**	271,686
Over-lift position	**12,837**	23,173
Joint venture creditors	**1,701**	1,632
VAT payable	**23,543**	–
Other payables	**4,465**	5,014
	501,990	446,089
Classified as:		
Current	**483,781**	367,312
Non-current	**18,209**	78,777
	501,990	446,089

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. The majority of these deferred payments fall due in 2019 and the balance is expected to be fully settled in 2020.

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling.

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

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24. Commitments and contingencies

Commitments

(i) Operating lease commitments – lessee

The Group has financial commitments in respect of non-cancellable operating leases for office premises. These leases have remaining non-cancellable lease terms of between one and 20 years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2018 $'000	2017 $'000
Due in less than one year	5,058	7,177
Due in more than one year but not more than five years	20,096	27,286
Due in more than five years	62,238	75,536
	87,392	109,999

Lease payments recognised as an operating lease expense during the year amounted to $5.1 million (2017: $5.3 million).

Under the Dons Northern Producer Agreement, a minimum notice period of 12 months exists whereby the Group expects the minimum commitment under this agreement to be approximately $7.8 million (2017: $7.1 million).

(ii) Operating lease commitments – lessor

The Group sub-leases part of its Aberdeen office. The future minimum rental commitments under these non-cancellable leases are as follows:

	2018 $'000	2017 $'000
Due in less than one year	1,568	1,638
Due in more than one year but not more than five years	6,952	7,141
Due in more than five years	2,927	4,686
	11,447	13,465

Sub-lease rent recognised during the year amounted to $1.1 million (2017: $1.3 million).

(iii) Finance lease commitments

The Group had the following obligations under finance leases as at the balance sheet date:

	2018 Minimum payments $'000	2018 Present value of payments $'000	2017 Minimum payments $'000	2017 Present value of payments $'000
Due in less than one year	144,188	93,169	173,846	118,009
Due in more than one year but not more than five years	460,960	313,500	460,960	289,949
Due in more than five years	341,212	302,281	456,374	389,975
	946,360	708,950	1,091,180	797,933
Less future financing charges	237,410	–	293,247	–
	708,950	708,950	797,933	797,933

The FPSO finance lease liability is carried at $709.0 million as at 31 December 2018 (2017: $797.9 million), of which $93.2 million is classified as a current liability. Finance lease interest of $55.8 million (2017: $31.3 million) has been recognised within finance costs. The finance leases have an effective borrowing rate of 8.12%.

(iv) Capital commitments

At 31 December 2018, the Group had capital commitments excluding the above lease commitments amounting to $15.7 million (2017: $33.8 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 a dispute with KUFPEC, the Group's field partner in respect of Alma/Galia. KUFPEC has commenced a court action in the High Court of Justice claiming an alleged breach of one of the Group's warranties provided under the Alma/Galia Farm-in Agreement and seeking damages of $91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are ongoing and the Directors believe that a considerable period will elapse before a final decision is reached by the courts.

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

The Group is also currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, 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.

25. 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 27 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 2018 (2017: none).

Share subscription

In 2018, subscription for new Ordinary shares pursuant to the rights issue (see note 17) 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 sublease

During the year ended 31 December 2018, the Group recognised $0.1 million (2017: $0.1 million) of rental income in respect of an office sublease 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 (2017: $0.04 million). 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 other senior personnel. This includes the Executive Committee for the year ended 31 December 2018.

	2018 $'000	2017 $'000
Short-term employee benefits	**7,052**	5,057
Share-based payments	**1,300**	1,305
Post-employment pension benefits	**218**	55
	8,570	6,417

26. 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 these 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 2018 and 2017, 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 on hand at the end of 2018 are disclosed in note 20.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2018

26. Risk management and financial instruments continued
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. As the derivatives on hand at 31 December 2018 have not been designated as hedges, there is no impact on equity.

	Pre-tax profit		Total equity	
	+$10/bbl increase $'000	-$10/bbl decrease $'000	+$10/bbl increase $'000	-$10/bbl decrease $'000
31 December 2018	**(40,310)**	**45,146**	**–**	**–**
31 December 2017	(68,350)	48,320	–	–

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 (US Dollars) and the 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 3% (2017: 1%) of the Group's sales and 42% (2017: 81%) of costs (including capital expenditure) are denominated in currencies other than the functional currency.

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 2018	**(41,852)**	**41,852**
31 December 2017	(43,100)	43,100

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 in note 26). 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 2018 there were $5.0 million of trade receivables past due (2017: $23.6 million), $1.6 million of joint venture receivables past due (2017: $1.7 million) and $nil (2017: $nil) of other receivables past due but not impaired. Subsequent to year end, $4.6 million of these outstanding balances have been collected (2017: $1.5 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	**2018 $'000**	2017 $'000
Less than 30 days	**4,649**	1,726
30-60 days	**16**	–
60-90 days	**8**	253
90-120 days	**–**	–
120+ days	**1,933**	23,301
	6,606	25,280

At 31 December 2018, the Group had three customers accounting for 81% of outstanding trade receivables (2017: four customers, 84%) and two joint venture partners accounting for 41% of outstanding joint venture receivables (2017: three joint venture partners, 97%).

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 2018, $68.4 million (2017: $97.8 million) was available for drawdown under the Group's credit facility (see note 19).

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.

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**
Obligations under finance leases	–	**93,169**	**69,689**	**243,811**	**302,282**	**708,951**
Trade and other payables	–	**419,855**	**18,209**	–	**50,412**	**488,476**
	–	**911,393**	**396,608**	**2,019,736**	**352,694**	**3,680,431**

Year ended 31 December 2017	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	–	424,886	347,603	667,975	–	1,440,464
Bonds[i]	–	66,141	66,141	1,112,842	–	1,245,124
Obligations under finance leases	–	118,009	64,142	225,807	389,975	797,933
Trade and other payables	–	364,472	157,554	–	–	522,026
Other financial liabilities	–	7,211	–	–	–	7,211
	–	980,719	635,440	2,006,624	389,975	4,012,758

(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 19)

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 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**
Foreign exchange derivative contracts	–	**249**	–	–	–	**249**
Carbon derivative contracts	**(837)**	**9,542**	–	–	–	**8,705**
	9,232	**62,173**	**1,852**	–	–	**73,257**

Year ended 31 December 2017	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	(4,991)	(29,616)	(10,850)	(1,531)	–	(46,988)
Chooser contract	(1,035)	–	–	–	–	(1,035)
Interest rate swaps	–	(13)	(19)	–	–	(32)
	(6,026)	(29,629)	(10,869)	(1,531)	–	(48,055)

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, 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. On 21 November 2016, the Group completed a comprehensive package of financial restructuring measures (see notes 17 and 19 for further details).

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

26. Risk management and financial instruments continued

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows:

	2018 $'000	2017 $'000
Loans, borrowings and bond[(i)] (A)	**2,048,498**	2,164,550
Cash and short-term deposits	**(240,604)**	(173,128)
Net debt/(cash) (B)	**1,807,894**	1,991,422
Equity attributable to EnQuest PLC shareholders (C)	**983,552**	760,866
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**127,278**	(60,830)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**78,195**	(33,554)
Gross gearing ratio (A/C)	**2.1**	2.8
Net gearing ratio (B/C)	**1.8**	2.6
Shareholders' return on investment (D/C)	**13%**	(8%)
Shareholders' return on investment excluding exceptionals (E/C)	**8%**	(4%)

(i) Principal amounts drawn, excludes netting off of fees (see note 19)

27. Subsidiaries

At 31 December 2018, 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%

(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

28. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Profit/(loss) before tax		**93,985**	(243,773)
Depreciation	5(c)	**5,287**	4,500
Depletion	5(b)	**437,104**	224,698
Exploration costs impaired/(reversed) and written off	5(e)	**1,407**	(193)
Net impairment (reversal)/charge to oil and gas assets	4	**126,046**	171,971
Write down of inventory	5(b)	**5,837**	(2,682)
Write down of asset	4	**3,602**	2,808
Excess of fair value over consideration	4	**–**	(48,734)
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)**	–
Gain on disposal of loan notes	5(d)	**–**	(1,263)
Impairment (reversal)/charge to investments	4	**121**	19
Share-based payment charge	5(f)	**4,645**	2,849
Shares purchased on behalf of Employee Benefit Trust	17	**–**	(1,763)
Change in deferred consideration		**14,028**	–
Change in surplus lease provision	22	**8**	(200)
Change in decommissioning provision	22	**12,617**	–
Change in other provisions	22	**(3,907)**	10,161
Amortisation of option premiums	20	**17,208**	(10,445)
Unrealised (gain)/loss on commodity financial instruments	5(a)(b)	**(97,432)**	(2,010)
Unrealised (gain)/loss on other financial instruments	5(a)(b)	**(2,310)**	–
Unrealised exchange loss/(gain)	5(d)(e)	**(21,911)**	23,910
Net finance (income)/expense	6	**219,191**	147,079
Operating profit before working capital changes		**742,510**	276,932
Decrease/(increase) in trade and other receivables		**6,844**	(13,611)
(Increase)/decrease in inventories		**22,255**	2,039
(Decrease)/increase in trade and other payables		**17,020**	61,674
Cash generated from operations		**788,629**	327,034

Changes in liabilities arising from financing activities

Year ended 31 December 2018	Loans and borrowings (see note 19) $'000	Bonds (see note 19) $'000	Finance leases (see note 24) $'000	Total $'000
At 1 January 2017	(1,102,366)	(868,740)	–	(1,971,106)
Cash flows	(112,001)	–	–	(112,001)
Additions	–	–	(771,975)	(771,975)
Foreign exchange adjustments	(552)	(18,828)	–	(19,380)
Capitalised PIK	–	(58,242)	–	(58,242)
Unwind of finance discount	–	–	(31,273)	(31,273)
Other non-cash movements	(4,756)	935	5,315	1,494
At 31 December 2017	**(1,219,675)**	**(944,875)**	**(797,933)**	**(2,962,483)**
Adjustment on adoption of IFRS 9	**–**	**(38,117)**	**–**	**(38,117)**
At 1 January 2018	**(1,219,675)**	**(982,992)**	**(797,933)**	**(3,000,600)**
Cash flows	**357,072**	**–**	**144,820**	**501,892**
Additions	**(175,000)**	**–**	**–**	**(175,000)**
Foreign exchange adjustments	**814**	**11,745**	**–**	**12,559**
Capitalised interest and PIK	**(13,179)**	**(16,220)**	**–**	**(29,399)**
Unwind of finance discount	**–**	**–**	**(55,837)**	**(55,837)**
Other non-cash movements	**(199)**	**(10,864)**	**–**	**(11,063)**
At 31 December 2018 (see note 19)	**(1,050,167)**	**(998,331)**	**(708,950)**	**(2,757,448)**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

29. Business combinations

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'). This acquisition followed from the acquisition of initial interests completed in December 2017 (see below). The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential.

The Transaction assets constitute a business and the acquisition has been accounted for using the acquisition method, in accordance with IFRS 3 Business Combinations. The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition and the results of the assets for the one month period from the acquisition date. 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.

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. At 31 December 2018, none of the trade receivables have been impaired.

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[(i)] $'000
Assets	
Property, plant and equipment (see note 10)	745,350
Inventory	50,977
Trade and other receivables (see note 15)	2,927
Liabilities	
Trade and other payables (see note 23)	(44,617)
Financial liabilities (see note 20)	(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**

(i) The initial accounting for the acquisition of the Transaction assets has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the Directors' best estimates. Thus, the fair value of the net assets may be subsequently adjusted, with a corresponding adjustment to goodwill prior to 1 December 2019 (one year after the transaction)

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.

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 has 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 within provisions (see note 22).

From the date of acquisition, the Transaction assets have 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.

Acquisitions in 2017

Acquisition of 25% interest in Magnus oil field and associated interests

On 1 December 2017, EnQuest completed the acquisition from BP of an initial 25% interest in the Magnus oil field ('Magnus') as well as a 3.0% interest in SVT, 9.0% of Northern Leg Gas Pipeline ('NLGP'), and 3.8% of Ninian Pipeline System ('NPS') (collectively 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)	124,542
Purchase option(i)	22,300
Financial asset(ii)	16,120
Inventory	14,884
	177,846
Liabilities	
Trade and other payables (see note 23)	(8,459)
Financial liabilities(iii)	(4,214)
Deferred tax liability (see note 7)	(49,816)
	(62,489)
Total identifiable net assets at fair value	**115,357**
Excess of fair value over cost arising on acquisition:	
Purchase option(i)	(22,300)
Thistle decommissioning option(ii)	(16,120)
25% acquisition value	(10,314)
Total excess of fair value over cost arising on acquisition	**(48,734)**
Purchase consideration through vendor loan	**66,623**

(i) The financial asset related to the purchase option to acquire the remaining 75% of Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million. At 31 December 2017, the option was recognised as a financial asset of $22.3 million (see note 20)
(ii) The financial asset related to the Thistle decommissioning option, and represents the difference between the $50 million cash that BP would transfer to EnQuest upon exercise of the option, and the net present value of the estimated cash outflow to settle the liability assumed
(ii) The financial liability related to the amount due to BP by reference to 7.5% of BP's actual decommissioning costs on an after-tax basis. The additional consideration EnQuest may pay is capped at the amount of cumulative positive cash flows received by EnQuest from the Transaction assets

The new assets recognised in the 31 December 2017 financial statements were based on a provisional assessment of their fair value while the Group determined the necessary market valuations and other calculations. During 2018, the calculations were completed resulting in a $1.5 million decrease to accruals and underlift, with the corresponding balance taken through acquisition property, plant and equipment.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

29. Business combinations continued

In addition to the above identifiable assets and liabilities, under the terms of the agreement, the Group had the option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure as exercised and described above. EnQuest also 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 (see note 20).

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to BP's strategic decision to partner with 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. The gain has been immediately recognised through exceptionals in the statement of comprehensive income.

Fair value of consideration

The consideration payable has been satisfied via a vendor loan from BP. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from the Transaction assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The base consideration was $85 million, which was adjusted for the interim period and working capital adjustments since the economic date of 1 January 2017, resulting in contingent consideration of $66.6 million. The present value of the deferred consideration was calculated from the future expected cash flows, at a discount rate of 10.0% and assumed repayment of around three years. This is recognised within contingent consideration within provisions (see note 22).

During 2017 from the date of acquisition, the Transaction assets contributed $14.0 million of revenue and $2.1 million to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2017, revenue from continuing operations would have been $73.9 million and the profit before tax from continuing operations would have been $25.9 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 2017. At 31 December 2017, none of the trade receivables have been impaired.

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 2018

	Note	2018 $'000	2017 $'000
Fixed assets			
Investments	3	**1,378,619**	894,512
Current assets			
Trade and other receivables			
– due within one year	5	**6,442**	10,323
– due after one year	5	**1,094,298**	1,042,427
Cash at bank and in hand	4	**480**	60
		1,101,220	1,052,810
Trade and other payables: amounts falling due within one year	7	**(115,303)**	(236,851)
Net current assets		**985,917**	815,959
Total assets less current liabilities		**2,364,536**	1,710,471
Trade and other payables: amounts falling due after one year	8	**(990,283)**	(934,352)
Net assets		**1,374,253**	776,119
Share capital and reserves			
Share capital and premium	9	**345,331**	210,402
Merger reserve		**905,890**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(6,884)**	(5,516)
Profit and loss account		**89,773**	(374,800)
Shareholders' funds		**1,374,253**	776,119

The attached notes 1 to 12 form part of these Company financial statements.

The Company reported a gain for the financial year ended 31 December 2018 of $502.7 million (2017: loss of $77.0 million). There were no other recognised gains or losses in the period (2017: $nil).

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 1 January 2017	208,639	905,890	40,143	(6,602)	(297,799)	850,271
Loss for the year	–	–	–	–	(77,001)	(77,001)
Total comprehensive income for the year	–	–	–	–	(77,001)	(77,001)
Share-based payment charge	–	–	–	2,849	–	2,849
Shares issued on behalf of Employee Benefit Trust	1,763	–	–	(1,763)	–	–
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	**345,331**	**905,890**	**40,143**	**(6,884)**	**89,773**	**1,374,253**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 20 March 2019.

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 United States 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 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. See the Financial Review 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 2018.

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:

Going concern

The going concern assumption is highly sensitive to economic conditions. The Company closely monitors and manages its funding position and liquidity risk throughout the year including monitoring forecast covenant results to ensure 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 development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

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. See Group critical accounting estimates and judgements.

Taxation

The tax provision is prepared before the tax returns are filed with the tax authority and, significantly, before these have been agreed. As a result, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate.

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.

Financial instruments (policy applicable from 1 January 2018)
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. 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 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
Initial recognition and initial measurement
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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Subsequent measurement
Financial assets at amortised cost
This category is the most relevant to the Group. 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.

Financial assets at amortised cost are subsequently measured using the effective interest ('EIR') method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. 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. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets 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.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss ('ECL') model'. This replaces IAS 39's 'incurred loss model'.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a '12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a 'lifetime ECL').

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. It is the Group's policy to measure ECLs on such instruments on a 12-month basis.

Financial liabilities

Initial recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables, quoted and unquoted financial liabilities, and derivative financial instruments.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to address its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any changes in fair value are recognised immediately in the profit or loss within 'Remeasurements and exceptional items' profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's 'Business performance' results with a corresponding reclassification from 'Remeasurements and exceptional items'.

Option premium received or paid for commodity derivatives are amortised into 'Business performance' revenue over the period between the inception of the option, and that option's expiry date. This results in a corresponding reclassification from 'Remeasurements and exceptional items' revenue.

The Group has not designated any derivative financial instruments as hedging instruments for the periods contained within these financial statements.

Loans and borrowings
This is the category most relevant to the Group and includes the measurement of the bonds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. This category generally applies to interest-bearing loans and borrowings.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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

Cash and cash equivalents
Cash and cash equivalents includes cash at bank, cash in hand, outstanding bank overdrafts and highly liquid interest-bearing securities with original maturities of three months or less.

Income taxes
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.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company financial statements. 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 and interests in joint ventures, 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 Company to make a single net payment.

Employee Benefit Trust
EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. 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 profit and loss account on the purchase, sale, issue or cancellation of equity shares.

Share-based payment transactions
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 (equity-settled transactions) of EnQuest PLC.

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of EnQuest (market conditions) or 'non-vesting' conditions, if applicable.

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the vesting period). 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 profit and loss account charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market or non-vesting conditions, 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 recognised for the award at that date is recognised in the profit and loss account. The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail within note 18 of the Group financial statements.

The reserve for the share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3. Investments

	Subsidiary undertakings $'000	Other financial assets at FVPL $'000	Total $'000
Cost			
At 1 January 2017	1,371,094	1,797	1,372,891
Additions	2,849	–	2,849
At 31 December 2017	**1,373,943**	**1,797**	**1,375,740**
Additions	**4,645**	**–**	**4,645**
At 31 December 2018	**1,378,588**	**1,797**	**1,380,385**
Provision for impairment			
At 1 January 2017	386,307	1,626	387,933
Impairment charge/(reversal) for the year	93,276	19	93,295
At 31 December 2017	**479,583**	**1,645**	**481,228**
Impairment charge/(reversal) for the year	**(479,583)**	**121**	**(479,462)**
At 31 December 2018	**–**	**1,766**	**1,766**
Net book value			
At 31 December 2018	**1,378,588**	**31**	**1,378,619**
At 31 December 2017	894,360	152	894,512
At 31 December 2016	984,787	171	984,958

The Company has recognised a reversal of impairment of its investment in subsidiary undertakings of $479.6 million (2017: impairment of $93.3 million). The reversal of impairment for the year ended 31 December 2018 is attributable primarily to the acquisition of Magnus and other interests as described in note 29 to the Group financial statements.

Details of the Company's subsidiaries at 31 December 2018 are provided in note 27 of the Group financial statements.

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. See note 13 of the Group financial statements for more detail on the impairment.

4. Cash at bank and in hand

	2018 $'000	2017 $'000
Cash at bank and in hand	**480**	60

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation to their fair value.

5. Trade and other receivables

	2018 $'000	2017 $'000
Due within one year		
Amounts due from subsidiaries	**6,442**	10,231
Other financial assets	**–**	92
	6,442	10,323
Due after one year		
Amounts due from subsidiaries	**1,094,298**	1,042,427

As per the application of IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of intercompany balances with similar loss patterns (i.e. by geographical region and security). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The Group 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 Group has evaluated an expected credit loss of $2.5 million for the year ended 31 December 2018.

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of $52.7 million (2017: $57.8 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

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

	2018 $'000	2017 $'000
Bond interest	**16,810**	16,574
Amounts due to subsidiaries	**98,375**	220,056
Accruals	**118**	221
	115,303	236,851

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

	2018 $'000	2017 $'000
Bonds	**990,283**	934,352

At 31 December 2018, bonds comprise a high yield bond with principal of $746.1 million (2017: $720.8 million) and a retail bond with principal of £171.9 million (2017: £166.0 million). The bonds mature in April 2022 and pay a coupon of 7.0% bi-annually. See note 19 of the Group financial statements.

9. 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 2018	**1,186,084,304**	**85,105**	**125,297**	**210,402**
Issuance of equity shares	**508,321,844**	**33,077**	**105,849**	**138,926**
Expenses on issue of equity shares	**–**	**–**	**(3,997)**	**(3,997)**
At 31 December 2018	**1,694,406,148**	**118,182**	**227,149**	**345,331**

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 2018, there were 73,180,394 shares held by the Employee Benefit Trust (2017: 56,023,671). On 22 October 2018, 22,126,481 shares were acquired by the Employee Benefit Trust pursuant to the rights issue. The remainder of the movement in the year is 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. 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 the year.

10. Reserves

Share premium

The excess contribution over the nominal value on the issuance of shares is accounted for as share premium.

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 18 of the Group financial statements.

11. 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.

12. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services in to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on page 58.