OUR PURPOSE

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

ENQUEST VALUES

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

Safety sits at the core of everything we do as we aim for **Safe Results** with no harm to our people and respect for the environment. We conduct our business and our relationships with **respect and openness**.

We **work collaboratively** to achieve exceptional results, **driving a focused business** to achieve success. Always pursuing **growth and learning** opportunities to unlock our full potential as individuals, teams and the Company as a whole.

Values
These Are What Connect Us

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STRATEGIC REPORT

CORPORATE GOVERNANCE

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HIGHLIGHTS

The Group met its operational targets for 2018, growing production by 48%. Material production growth of around 20% is expected in 2019 and a focus on cost control and capital discipline will enable the scheduled repayment of debt, which remains the priority for the Group

2018 PERFORMANCE

Production (Boepd)
55,447
+48%

Unit opex (/Boe)
$23
-10%

EBITDA[1] (m)
$716
+136%

Net 2P Reserves (MMboe)
245
+17%

Read more on KPIs
See page 08

2019 OUTLOOK

Production range (Boepd)
c.63,000 to 70,000
+14% to 26%

Operating expenditure (m)
c.$600
+28%

Cash capex (m)
c.$275
+14%

For more details
See pages 07 and 15

2018 STATUTORY REPORTING METRICS

	2018 $m	2017 $m	Change %
Revenue and other operating income	**1,298.4**	627.5	106.9
Profit/(loss) before tax	**94.0**	(243.8)	–
Basic earnings per share (cents)[2]	**10.4**	(4.6)	–
Net cash flow from operating activities	**794.4**	301.8	163.2
Net assets	**983.6**	760.9	29.3

Notes:
1 EBITDA is calculated on a Business performance basis, and is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure
2 2017 reported earnings per share has been restated for the bonus element of the rights issue

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

OUR YEAR IN REVIEW

In 2018, EnQuest delivered a good operational performance and strong cost control and cash generation, enabling the Group to reduce its debt.

JANUARY TO MARCH

- Received $30 million in cash from BP in exchange for undertaking the management of the physical decommissioning of the Thistle and Deveron fields and making payments by reference to 4.5% of BP's decommissioning costs of these fields when spend commences. Option agreed to receive a further $20 million in cash in exchange for increasing future decommissioning-related payments by 3.0%
- Agreed renegotiated terms for the drilling rig at Kraken, reducing both the contract duration and day rates, saving c.$60 million of net cash payments for capital expenditure in 2019

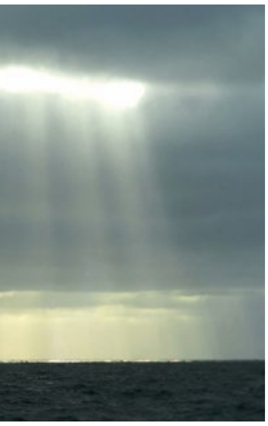
APRIL TO JUNE

- First production from the M-62 well at Magnus in May
- Improved cash flow generating capacity enabled the early cancellation of $50 million of the Group's credit facility, which reduced to $1,075 million by the end of May
- Esperanza drilling rig arrived and commenced the Group's first ever drilling operations on PM8/Seligi

The Magnus and SVT assets are a strong strategic fit for EnQuest. They are assets to which the Group can apply its life extension expertise to deliver value for all its stakeholders.

JULY TO SEPTEMBER

- Production from the Group's two-well drilling programme at PM8/Seligi was successfully completed and brought into production in July, with aggregate flow rates in line with pre-drill expectations
- All six well abandonments at Thistle successfully concluded ahead of schedule and at a lower cost than budgeted
- Completed the replacement of three Electric Submersible Pumps at Alma/Galia, increasing aggregate production from the previously low levels as planned
- Agreed a $15 million (gross) compensation settlement with Armada Kraken Pte Ltd, a wholly-owned subsidiary of Bumi Armada Berhad ('Bumi'), in relation to historic issues with the Kraken FPSO
- Issued Bumi with the FPSO Acceptance Certificate upon completion of agreed engineering requirements for issuance
- Improved reservoir understanding enabled approval for developing DC4 at Kraken with three wells instead of the four originally planned, saving approximately $23 million in capital costs with no material impact on oil production rates or recovery anticipated
- 10 MMbbls of oil produced and 20 cargoes offloaded from the Kraken FPSO since first production
- Agreed $175 million of financing, ring-fenced on a 15% interest in the Kraken oil field, with funds managed by Oz Management
- The SVT team handled logistical support to the Shetland Islands Council for the first ship-to-ship transfer of crude oil at the Port of Sullom Voe for almost three years



- Heather H-67 well brought into production in March, with production significantly better than expectations
- EnQuest Malaysia reached four years LTI free with Tanjong Baram remaining recordable incident free since inception

Production (Boepd)

55,447

+48%

EBITDA[1] (m)

$716

+136%

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

- Sanctioned the Dunlin bypass export project which, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal
- Sanctioned a replacement pipeline at Scolty/Crathes to mitigate existing wax-related restrictions on production. Following installation, production levels from the development are expected to improve significantly

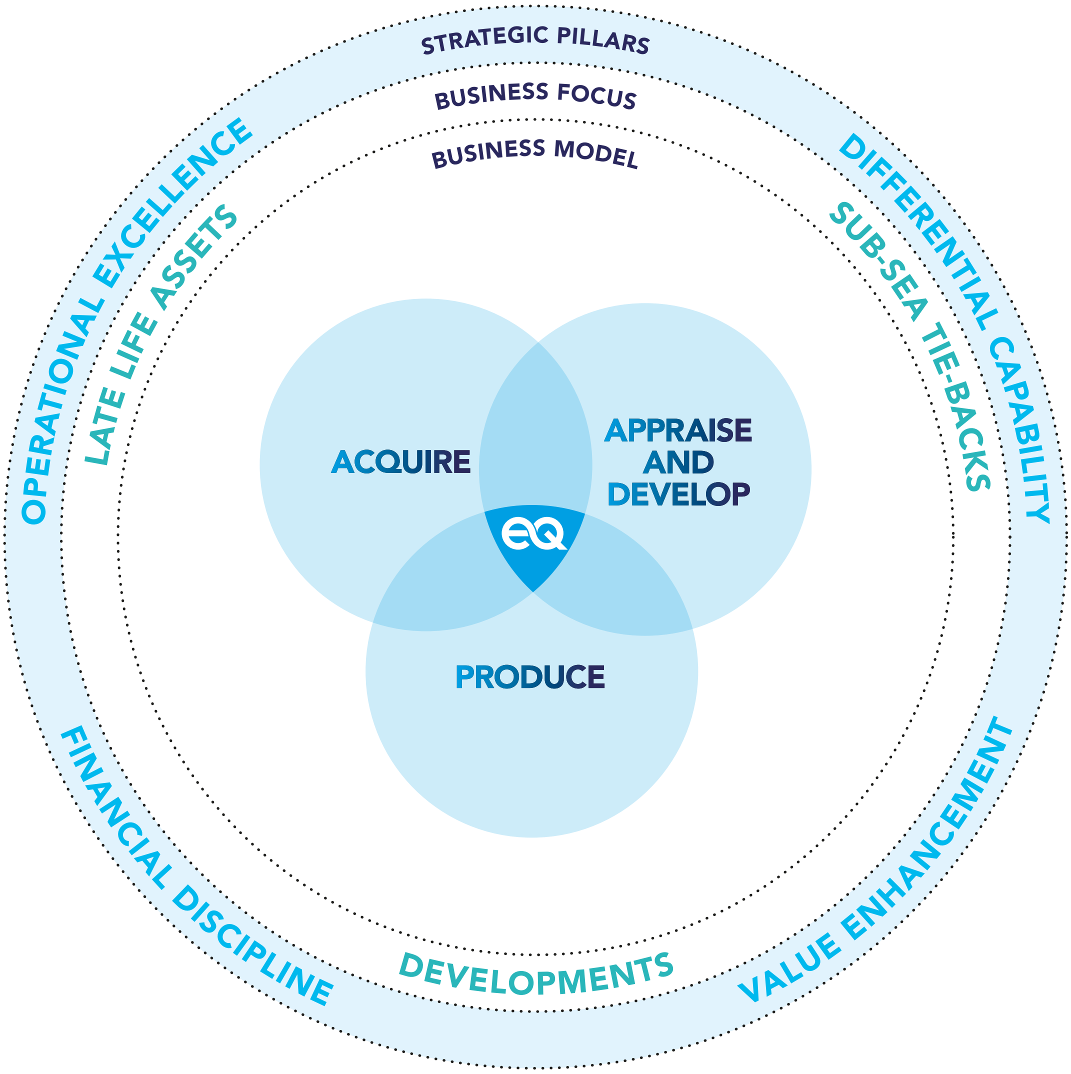
OCTOBER TO DECEMBER

- Kittiwake and PM8/Seligi achieved 13 and eight years LTI free respectively
- Following an early repayment of $25 million of the term facility in August, a further $200 million repayment was made in October, reducing the facility to $850 million. The reduction was primarily funded by the drawdown from the $175 million Oz Management facility
- Kraken subsea infrastructure for DC4 completed and three-well drilling campaign commenced
- Received strong shareholder support to undertake a rights issue to finance the acquisition of additional interests in Magnus, SVT and associated infrastructure from BP. The rights issue successfully raised approximately $129 million (net) to fund the acquisition, which completed effective 1 December 2018 adding significant low-cost 2P reserves, and to drill two new wells at Magnus in 2019

- Exercised the Thistle option, receiving $20 million in cash in exchange for increasing the Group's total decommissioning payment obligation to 7.5%
- Strong cash generation enabled a further early repayment of $65 million of bank debt in November; term facility reduced to $785 million
- Successfully reduced annual operating costs at SVT by around 25% to approximately £150 million through applying an asset business model at the terminal, focused supply chain management and efficient project delivery

STRATEGY AND BUSINESS MODEL

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



SHAREHOLDERS

We aim to deliver growth and returns through the acquisition of high-quality assets with creative transaction structuring, commercialising and developing discoveries, converting contingent resources into reserves, and exploiting existing reserves.

EMPLOYEES

We recognise that our people are critical to our success. We have a strong set of Values that underpin our way of working and are dedicated to delivering Safe Results. We aim to provide a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy.

OTHER STAKEHOLDERS

We are committed to delivering Safe Results, helping meet society's need for hydrocarbons with no harm to people and respect for the environment. Delivering on our targets ensures we fulfil our commitments with our creditors and suppliers, with whom we aim to develop and maintain long-term relationships based on respect and collaboration.

OPERATIONAL EXCELLENCE

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

- In 2018, maintained production efficiency in excess of 94% at PM8/Seligi with production efficiency improved across the majority of the Group's UK operated assets, with many achieving rates above 80%
- Workshops held to maintain and improve Major Accident Hazard awareness
- Improved reservoir understanding facilitated a reduction in the number of DC4 wells at Kraken, saving approximately $23 million in capital costs with no material impact on oil production rates or recovery anticipated
- PM8/Seligi flaring maintained c.35% below the annual flare consent
- PM8/Seligi compressor rejuvenation resulting in improved reliability

DIFFERENTIAL CAPABILITY

EnQuest has the right mix of integrated technical capabilities to select appropriate development and production options, delivering high levels of production efficiency and cost control to realise value from maturing and underdeveloped assets. Achieving asset life extension and maximising economic recovery from those assets will enable future growth.

- Redesigned, upgraded and reused existing facilities and infrastructure, including drilling rig reactivation at Thistle and Magnus
- Completed more than 1,500 well work programmes and more than doubled the active well count to over 70 strings at PM8/Seligi since 2014, facilitating additional production to arrest field decline
- Matched production history to support development drilling and secondary recovery schemes to add additional reserves and extend field life at Thistle, Heather, Dons and Magnus
- In 2018, successfully completed a variety of extensive drilling, workover, intervention and abandonment campaigns, including those at Kraken, Magnus, PM8/Seligi, Heather, Alma/Galia and Thistle

VALUE ENHANCEMENT

EnQuest employs a cost-conscious approach and implements innovative initiatives to add value to its operations. Innovative transaction structures facilitate getting the right assets into the right hands.

- Hub approach to logistics, inspection and maintenance combined with inventory sharing with other operators in the North Sea
- Innovative supply chain management, including interactive supplier forums, open book contracts and 'should cost' modelling
- Innovative transaction structure enabled the acquisition of Magnus, SVT and associated infrastructure from BP
- Drilled the first two wells at Magnus at materially lower cost than originally anticipated
- Renegotiated both the contract duration and day rates for the drilling rig at Kraken, saving c.$60 million of net cash payments for capital expenditure in 2019

FINANCIAL DISCIPLINE

EnQuest focuses on capital allocation that prioritises positive cash flow generative investment and the effective management of EnQuest's capital structure and liquidity.

- Reduced costs at SVT by c.25% through applying an asset business model at the terminal, focused supply chain management and efficient project delivery
- 2018 rights issue raised c.$129 million (net) to fund the acquisition of additional interests in Magnus, SVT and associated infrastructure and the drilling of two wells in 2019
- Improved cash generation and the Kraken financing agreement facilitated cancellation and repayment of $340.0 million of the Group's credit facility, more than the scheduled amortisation requirement
- Effective liquidity management through the exercise of the Thistle decommissioning option

For more details
See pages 12 to 35

TRACK RECORD

Having the right assets in the right hands leads to improved performance

UK

2010 → 2017

55%
production growth on a pro forma basis in our first year

Three operated producing hubs

EnQuest listed on the London Stock Exchange in April 2010

3
additional production hubs added through the sanction of Alma/Galia and Kraken and the acquisition of GKA

Thistle major power supply upgrade; new and simplified process controls and safety systems introduced; integrity work on platform topsides; and a water injection reliability programme

>70%
reduction in GKA unit opex since acquisition

Material production enhancement at GKA through additional wells, dissolver treatment and 'Produce the Limit' focus; Scolty/Crathes sanctioned, extending GKA hub life to 2025

Rig reactivation and drilling campaign initially doubled production at Heather/Broom in 2015. Alma/Galia development first production

25%
equity interest in Magnus acquired from BP

First oil from Kraken in June 2017 with production of >40,000 Bopd gross achieved in November

Kraken full cycle gross project capital expenditure further reduced; anticipated to be more than 25% lower than originally sanctioned

MALAYSIA

2014 → 2017

13
operated offshore assets acquired at PM8/Seligi through PM8 Extension PSC

Quickly increased gross production from 12,400 Boepd to 15,100 Boepd

Signed Tanjong Baram SFRSC contract and commenced development

2
wells drilled and brought online at Tanjong Baram

At PM8/Seligi, gas engine changeouts for Train A & B gas compressors and first scheduled annual maintenance shutdown completed ahead of schedule

>500
well interventions undertaken at PM8/Seligi since assuming operatorship

16 idle well strings successfully returned to service

Record weekly production achieved since EnQuest assumed operatorship, averaging over 23,000 Boepd gross in December 2016

5
MMboe gross annual production maintained for third consecutive year at PM8/Seligi

Investment in facility projects and process simplification to improve reliability and production efficiency

Established remote monitoring for satellite wells on Seligi D & F, improving uptime and performance

NORTH SEA OPERATION BREAKDOWN

1 onshore terminal

7 operated production hubs

63 wells drilled and completed by EnQuest

c.235 MMboe of net 2P reserves added

c.89 MMboe produced (net)

MALAYSIA OPERATION BREAKDOWN

2 production licences

c.28 MMboe of net 2P reserves added

63 idle wells returned to production by EnQuest

14 operated offshore platforms

c.12 MMboe produced (net)

2018 ACHIEVEMENTS

c.55

MMboe added to net 2P reserves at 31 December 2018 from 75% interest in Magnus

Additional production from new wells at Kraken, Magnus and Heather

Significant cost savings at SVT through focused project execution and supply chain management

Asset life extension activities through well workovers at Alma/Galia and idle well abandonments at Thistle

2018 ACHIEVEMENTS

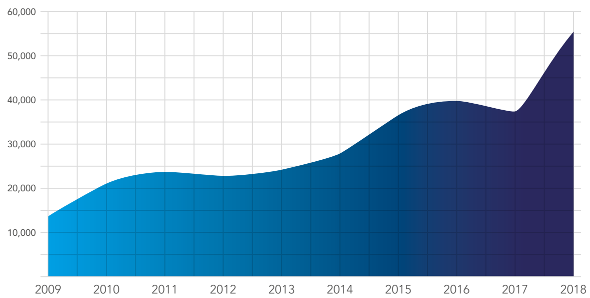
2

new wells at PM8/Seligi delivered aggregate production in line with expectations

Achieved >99% availability for two gas compressors in Q3

Established remote monitoring of satellite wells at six platforms improving uptime. Received an award from PETRONAS for the 'Highest Improvement' in relation to offshore self-regulation. Delivered cumulative production of 1.5 MMbbls from Tanjong Baram

PRODUCTION HISTORY (Boepd)



c.17% compound average growth in production

2019 AND BEYOND

63-70,000

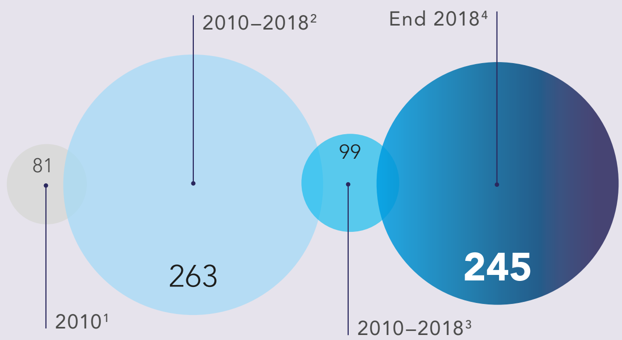
Boepd expected in 2019

In the near term, delivering on operational targets and reducing the Group's debt remains EnQuest's priority

In the future, the Group's capital allocation will balance investment to develop its asset base, the acquisition of suitable opportunities and, should conditions allow, returns to shareholders

"WITH NET 2P RESERVES OF c.245 MMBOE, UNDERPINNED BY MAGNUS, PM8/SELIGI AND KRAKEN, THE GROUP HAS SIGNIFICANT POTENTIAL WITHIN THE PORTFOLIO AND IS WELL POSITIONED TO PURSUE LONG-TERM SUSTAINABLE GROWTH."

NET 2P RESERVES (MMboe)



Reserves life of c.13 years based on 2018 production

Notes:
1 Net 2P reserves at start of 2010
2 Additions to 2P reserves 2010 to end of 2018
3 Production 2010 to 2018
4 Net 2P reserves at end of 2018

KEY PERFORMANCE INDICATORS

A: HSE&A
GROUP LOST TIME INCIDENT FREQUENCY RATE[1]

-6.5%

2018	**0.43**
2017	0.46
2016	0.51

EnQuest delivered on its commitment to continual improvement in HSE&A performance. In occupational safety, our Lost Time Incident ('LTI') performance remained strong, with many assets recording an LTI-free year.

Link to strategy

For more details
See pages 28 to 31

B: PRODUCTION
(BOEPD)

+48.2%

2018	**55,447**
2017	37,405
2016	39,751

Production was 48.2% higher than in 2017. Increased production from Kraken and Magnus was partially offset by the expected lower production at Alma/Galia and Scolty/Crathes and underlying natural declines elsewhere in the portfolio.

Link to strategy

For more details
See pages 10 to 19

C: UNIT OPEX
($/BOE)

-10.2%

2018	**23.0**
2017	25.6
2016	24.6

Average unit operating costs were 10.2% lower than in 2017 ($25.6/Boe), primarily as a result of increased production from the Kraken field which has a lower unit operating cost than the Group average.

Link to strategy

For more details
See pages 22 to 27

D: EBITDA[2]
($ MILLION)

+135.9%

2018	**716.3**
2017	303.6
2016	477.1

Higher production from Kraken and Magnus combined with increased realised prices, reflecting higher average market prices, increased EnQuest's EBITDA.

Link to strategy

For more details
See pages 22 to 27

E: CASH GENERATED BY OPERATIONS
($ MILLION)

+141.2%

2018	**788.6**
2017	327.0
2016	408.3

Cash generated by operations was 141.2% higher than in 2017, primarily reflecting improved EBITDA.

Link to strategy

For more details
See pages 22 to 27

F: CASH CAPEX[3]
($ MILLION)

-40.1%

2018	**220.2**
2017	367.6
2016	609.2

Cash capex was 40.1% lower than in 2017, primarily driven by reduced activity at Kraken.

Link to strategy

For more details
See pages 22 to 27

G: NET DEBT
($ MILLION)

-10.9%

2018	**1,774.5**
2017	1,991.4
2016	1,796.5

Net debt decreased by 10.9% compared to 2017, primarily reflecting the improved cash-generating capability of the Group with increased contributions from Kraken and Magnus and favourable working capital movements. The Group has remained in compliance with financial covenants under its debt facilities throughout the year and managing ongoing compliance remains a priority.

Link to strategy

For more details
See pages 22 to 27

H: NET 2P RESERVES
(MMBOE)

+16.6%

2018	**245**
2017	210
2016	215

Net 2P reserves increased by 16.6% compared to 2017, primarily reflecting the Magnus acquisition-related increase.

Link to strategy

For more details
See page 20

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and 8 hours for onshore)
2 EBITDA is calculated on a Business performance basis, and is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure
3 Net of proceeds from disposal of $nil (2017: $nil, 2016: $1.5 million)

ENQUEST VALUES

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

During 2018, teams from across the organisation were involved in refreshing the Group's Values. Through a series of focus groups and reviews, the teams provided valuable insight to ensure the essence of what makes EnQuest great was captured and provide a link between the Company's purpose, vision and strategy. These Values are now our five key 'drivers of behaviour' and are being incorporated into all our people-related processes, including a core competency framework, performance management appraisal, talent and succession planning and reward.

WORK COLLABORATIVELY

RESPECT & OPENNESS

SAFE RESULTS

GROWTH & LEARNING

DRIVING A FOCUSED BUSINESS

EnQuest Values

These Are What Connect Us

CHAIRMAN'S STATEMENT

"EXERCISING THE MAGNUS OPTION HAS STRENGTHENED THE BUSINESS."

Jock Lennox
Chairman

EnQuest performance overview

In 2018, EnQuest took a further significant step forward in strengthening the business and adding to its potential. The exercise of the Magnus Option, which received very strong support from our shareholders to acquire the remaining 75% equity interest in Magnus, provided the Group with an immediate and material increase to its 2P reserves, production and cash flow. Magnus performance has been strong since EnQuest assumed operatorship in December 2017 and the application of the Group's differential capabilities saw production increase significantly in late 2018.

While production from Kraken was below our expectations, primarily reflecting FPSO performance and weather-related outages, the strong production performance across the Group elsewhere saw EnQuest meet its production growth target. The Group's improved cash-generating capability and the execution of the Kraken financing agreement enabled the Group to make material repayments on its bank debt. Debt reduction remains a priority for EnQuest.

The Group's net 2P reserves were up approximately 17% after accounting for the increased production in 2018, driven by the additional 75% interest in Magnus. By the end of 2018, EnQuest had a net 2P reserves base of 245 MMboe, which represents average growth of approximately 13% per annum since EnQuest's formation nine years ago and a reserves life of around 13 years.

Industry context

For much of 2018, we saw a steady improvement in the oil price, reflecting a combination of strong growth in global demand coupled with increasing constraints on supply. However, during the fourth quarter, concerns over a weakening demand outlook and expectations of over-supply saw a rapid deterioration in the oil price, which dipped to around $50/bbl in late December. Since then, the price has quite quickly recovered to within the range of c.$65/bbl and c.$68/bbl. Throughout this period of volatility, we have remained focused on achieving our targets, maintaining and enhancing production while controlling costs and capital expenditure. It is vital we continue to keep this focus through 2019 with ongoing oil price uncertainty.

The Directors believe that the UK Continental Shelf remains an attractive investment proposition. While there may be some disruption to the supply chain from the impacts of the UK's proposed exit from the European Union, the Directors are confident that such issues can be overcome. The industry has worked hard in recent years to reduce its operating and capital costs, facilitating delivery on the UK Government's strategy of Maximising Economic Recovery of the significant hydrocarbons that remain in place. This competitive regulatory structure is further supported by a competitive fiscal regime, an extensive installed infrastructure base, access to a world-leading supply chain and a highly skilled workforce. EnQuest has been successful in replicating its UK operating model in Malaysia, another maturing region with significant hydrocarbons in place, and where the Group has a strong partnership with PETRONAS.

EnQuest's Board

As previously noted in EnQuest's 2017 Annual Report and Accounts, we were extremely pleased to welcome Laurie Fitch to the Board. Laurie joined the Company on 8 January 2018 and became a member of both the Risk and Remuneration Committees. In January 2019, as planned, Laurie succeeded Helmut Langanger as the Chair of the Remuneration Committee. Helmut has chaired the Committee for nine years, developing open and transparent communications with our investors as we have shaped an effective remuneration policy. I would like to take this opportunity to thank Helmut for his valuable leadership over this period. We are pleased he will continue to be a member of the Remuneration Committee to aid Laurie's transition into the role.

As a Board, we remain conscious of the need to have an effective succession plan that ensures the Board has the correct composition of skills and experience to continue its support of the executive management team in executing the Group's strategy. We are therefore very pleased that, subject to shareholder approval at the annual general meeting, Howard Paver will join the Board. Howard is a petroleum engineer by background and has 40 years of oil and gas experience working for Hess, BHP Petroleum, Mobil and Schlumberger in various senior leadership positions. His significant knowledge in production and development, as well as experience of managing complex assets in various parts of the globe, will bring technical and commercial skills to the Board. This is of particular relevance as Helmut Langanger, who has over 40 years of industry experience, will be rotating off the Board in due course.

In 2019, both Helmut and I will have served as Directors of the Company for nine years. With the completion of the Magnus option and following on from the Company's financial restructuring in late 2016, the Company is positioned to pursue its strategic goals and, as is now appropriate, Helmut, as Senior Independent Director, is leading a process to identify a candidate to replace me as Chairman and take the Company forward to the next phase of its development. It is envisaged that after my succession process has completed, Helmut will retire from the Board.

EnQuest's people

In 2018, the Group was focused on meeting its operational and financial targets and maintaining cost and capital discipline in a volatile macro environment. The capital raise, via a rights issue, to facilitate the strategically important acquisition of additional interests in Magnus, the Sullom Voe Terminal and associated infrastructure from BP, and the financing associated with Kraken, all required significant amounts of the Board's and management's time and attention. Additionally, achieving all of these objectives has only ultimately been possible due to EnQuest's people. The Board and I would like to express our gratitude to everyone, both new and old, at EnQuest for their drive, commitment and professionalism in delivering Safe Results, meeting our targets and completing the acquisition of assets from BP to give the Company an even stronger base upon which to build for the future.

Following the results of our culture survey in 2017, the Group's Values were refreshed through a series of group-wide focus groups and workshops. This process has ensured that our Values embody everything the Company stands for and align with the aspirations of our people, acting as a guide in the pursuit of EnQuest's strategy. Through 2019, the refreshed Values will be incorporated into a number of the Group's processes, including those in Human Resources and Health, Safety, Environment and Assurance.

In early 2019, the Board approved the establishment of an Employee Forum to improve engagement and interaction between the workforce and the Board. This supplements the Group's existing employee engagement activities and is in line with the revised Corporate Governance Code published in July 2018.

Strategy and governance

The Directors provide strategic guidance and challenge to executive management and take key decisions on the implementation of the Group's strategy. EnQuest's governance framework also contains several non-Board Committees, which provide advice and support to the Chief Executive, including an Executive Committee, Investment Committee and HSE&A Committee.

"BOARD SUCCESSION PLANNING HAS REMAINED AN AREA OF FOCUS THROUGHOUT 2018."

The Group welcomes the drive for increased governance and transparency in general, and specifically in relation to climate change. The Board recognises the increasing societal, media and investor focus on climate change and the desire to understand its potential impacts on the oil and gas industry through improved disclosure, utilising mechanisms such as those proposed by the Task Force on Climate-related Financial Disclosures. Through the Risk and Audit Committees, the Board has continued to review the potential risk of climate change on the effective execution of the Group's strategy and has concluded that, on a standalone basis, climate change is not a principal risk but one factor amongst others influencing our assessment of the Group's principal risks, the details of which can be found on pages 36 to 43. The Risk Committee will continue to undertake detailed analyses of specific risk areas to ensure that the potential effects of climate change continue to be identified, considered and assessed appropriately within the Group's Risk Management Framework. Further, the Board, in particular through the work of the Risk Committee, has been active in supporting the continued evolution of the Group's Risk Management Framework to enhance effective risk management within the Board-approved risk appetite of the Company. Through this process, the Risk Committee reviewed all risk areas faced by the Group and identified the causes of risk and their associated impacts and mapped these to the preventative and containment controls used to manage such risks to acceptable levels.

Ensuring that the Board works effectively remains a key focus of the Company. During the year, an external evaluation of the Board was held which recognised the improvements made in the Group's governance since the last external evaluation in 2016. It also identified additional areas for consideration to drive continuous improvement in this area. The most important area discussed related to Board succession planning, which I have already outlined. More details are provided on pages 77 and 78. The Board is committed to delivering the highest standards of corporate governance. Activities are already under way in relation to the changes to the Corporate Governance Code announced in July 2018 and the Board is actively engaged in the implementation of the necessary processes and procedures that will enable continued compliance.

The Board believes that the manner in which the Group conducts its business is important. In the execution of our strategy, we are committed to working responsibly for the benefit of all our stakeholders. The Board has approved the Company's overall approach to corporate responsibility, which is focused on five main areas. These are: Health and Safety; People; Environment; Business Conduct; and Community. The Board receives regular information on the performance of the Company in these areas, and specifically monitors health, safety and environmental reporting at each Board meeting. The Company's Health, Safety, Environment & Assurance ('HSE&A') Policy is reviewed by the Board annually and all incidents, forward-looking indicators and significant HSE&A programmes are discussed by the Board. Specific developments and updates in all areas are brought to the Board's attention when appropriate. Having undertaken a detailed review of the Group's HSE&A processes, the Risk Committee recommended the addition of HSE&A oversight and review within its scope of work to supplement and assist the Board in reviewing such matters.

The Group has a Code of Conduct that it requires all personnel to be familiar with as it sets out the behaviour which the organisation expects of its Directors, managers and employees, as well as suppliers, contractors, agents and partners.

Dividend

The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the immediate future. However, the Board anticipates reviewing the policy when appropriate, the timing of which will be subject to the oil price environment, the capital structure of the Company and its expected future cash flows.

2019: continued focus on delivery and debt reduction

We have made significant progress in 2018, meeting our targets and making substantial repayments of our bank debt. The acquisition of Magnus diversifies our production portfolio and, along with Kraken and PM8/Seligi, provides the Group with material future production opportunities. In 2019, we must continue to focus on delivering on our targets to facilitate the effective management of our liquidity position and capital structure. With the oil price environment remaining volatile, we recognise that we must maintain our focus on financial discipline, cost efficiencies and managing Group liquidity. We will continue to prioritise our resources to those projects which maximise cash flow to facilitate debt reduction, continuing the Company's progress towards a more sustainable balance sheet which will enable the long-term growth of the business.

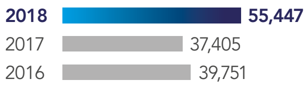
CHIEF EXECUTIVE'S REPORT

"IN 2018, THE GROUP MET ITS FINANCIAL AND OPERATIONAL TARGETS, GROWING PRODUCTION BY 48% AND REDUCING NET DEBT."

Amjad Bseisu
Chief Executive

PRODUCTION
(BOEPD)

+48.2%



Overview

During 2018, the Group was focused on meeting its financial and operational targets and facilitating debt reduction. The successful acquisition of Magnus, the Sullom Voe Terminal and related infrastructure assets from BP was a great testament to our people's focus on delivery and excellent team collaboration. The Group's collective efforts delivered a set of assets with a strong strategic fit into the portfolio. EnQuest's cash-generation capability has improved through the acquisition of Magnus in particular and we are well positioned to meet our debt repayment schedule and capital programme in 2019 and beyond.

Operational performance

EnQuest's average production increased by 48.2% to 55,447 Boepd, above the mid-point of the Group's guidance. The increase reflected the contributions from Kraken and Magnus, along with a better than expected performance at Heather, Alma/Galia and Scolty/Crathes, partially offset by natural declines.

Following strong shareholder support for the rights issue undertaken in October, EnQuest completed the acquisition of additional interests in Magnus, the Sullom Voe Terminal and related infrastructure in December. The additional interest in Magnus and the success of plant debottlenecking and well intervention work drove a substantial and better than expected increase in production.

The acquisition of Magnus also drove a material increase in net 2P reserves to 245 MMboe at the end of 2018, up 17% on the 210 MMboe at the end of 2017, and was a key component in the Group achieving a reserves replacement ratio of 184%. While production at Kraken has been below expectations, with FPSO performance the main limiting factor, the Group's reserves position for Kraken remains materially unchanged. Since the Company was formed with around 81 MMboe of 2P reserves, the Group has achieved a compound average reserves growth of 13%, with remaining 2P reserves representing a current production life of around 13 years.

Financial performance

The combination of increased production and higher realised prices drove an improved financial performance in 2018. Both EBITDA and cash generated by operations more than doubled, to $716.3 million and $788.6 million respectively. The Group's ongoing focus on cost control kept operating expenditure to $465.9 million, with unit operating costs reduced to around $23.0/Boe. Capital expenditure was also significantly lower year on year, down $147.4 million to $220.2 million, primarily driven by the reduced programme at Kraken.

EnQuest reviewed a number of potential opportunities to realise value from the Kraken asset. Having reviewed the various options available to the Group, the Board approved the financing arrangement for $175 million, ring-fenced on a 15% interest in the Kraken oil field, with funds managed by Oz Management, as the preferred economic option at the time. We continue to keep a future potential equity farm-down at Kraken under review.

The combination of this financing agreement and strong underlying business performance facilitated accelerated repayments of the Group's credit facility, which reduced by $340.0 million, from $1,125.0 million to $785.0 million, excluding the revolving credit facility. The Group ended the year with net debt of $1,774.5 million, down from $1,991.4 million at the end of 2017 and further debt reduction remains a near-term priority for the Group.

Health, Safety, Environment and Assurance ('HSE&A')

As always, Safe Results is our number one priority and we have had excellent results in many areas, meeting the majority of our performance targets. In Malaysia, we again had zero lost-time incidents ('LTI'), with PM8/Seligi achieving eight years LTI free, and we reduced the number of hydrocarbon release events. This strong performance came against a backdrop of high activity levels offshore. In the UK North Sea, our colleagues on the Kittiwake platform recorded their 13th year without an LTI with many of our other assets also delivering an LTI-free year. However, we saw an increase in the number of hydrocarbon release events and had a high-potential dropped-object incident on Magnus associated with lifting operations. These serve to highlight that we must remain focused on safety at all times and aim for continuous improvement in all that we do.

The main sources of atmospheric emissions from EnQuest assets are derived from combustion plant associated with power generation and flaring. As such, while overall extraction emissions increased in 2018, largely as a result of the addition of Magnus to our portfolio, our improved production performance drove our extraction-related greenhouse gas emissions intensity ratio lower by 17.6%. In Malaysia, the team's focus on minimising emissions resulted in flaring at PM8/Seligi being maintained at around 35% below the annual flare consent from the regulator.

While hydrocarbons are expected to remain a key element of the UK and global energy mix, the Group recognises that it must endeavour to minimise carbon emissions from its operations as far as practicable as it seeks to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. Our strategy of acquiring assets and extending their economic life facilitates the industry's move from long-term, 'full-cycle' expenditure to lower-carbon energy supply sources while helping to fulfil energy demand requirements during this transition period.

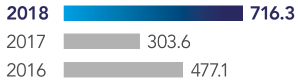
UK North Sea operations

Production from the UK North Sea was materially higher in 2018 than in 2017. This increase was driven by a combination of additional production from Kraken and Magnus and the successful execution of our planned work programmes.

At Magnus, the team successfully undertook plant de-bottlenecking and water injection system improvements. Two new wells were drilled and brought online, with further production improvements driven by successful well intervention activities. Following our two-well drilling campaign in 2018, a further two-well programme will commence in 2019, along with additional intervention and plant improvement activities. Future material infill drilling opportunities continue to be refined and assessed to maximise recovery from the significant remaining resources in place.

EBITDA[1]
($ MILLION)

+135.9%



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

ENQUEST VALUES

DRIVING A FOCUSED BUSINESS

"EnQuest's cohesive culture with in-depth niche skills is driving a focused business working environment."

Hadiani Haron
Planning Analyst, Malaysia

CHIEF EXECUTIVE'S REPORT CONTINUED

NET 2P RESERVES
(MMBOE)

+16.6%

Further drilling successes were achieved at Heather, Thistle and Alma/Galia. The H-67 well at Heather delivered above the Group's pre-drill expectations and the Group began its well abandonment campaign at Heather in December following the successful execution of six well abandonments at Thistle. The replacement of three Electric Submersible Pumps at Alma/Galia resulted in production restoration in line with the Group's plans.

At both Alma/Galia and Scolty/Crathes, production was better than expected as a result of improved production efficiency and the successful management of wax deposition, respectively. The successful production optimisation strategy at Scolty/Crathes has resulted in the project achieving payback just over two years after start-up, despite the wax deposition challenges meaning only the Crathes reservoir has delivered production and revenues.

During the year, we sanctioned the Scolty/Crathes pipeline replacement project, to remedy the wax deposition-related production restrictions, and the Dunlin bypass, which will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal. Both projects help underpin longer-term production from these assets. Elsewhere, the Group continues to assess development options for the Eagle Discovery and at Dons North East.

Production at Kraken was below expectations, reflecting a number of FPSO and weather-related outages throughout the year. Our clear operational priority in 2019 is to improve FPSO uptime and efficiency. We are working with the FPSO operator on a number of improvement initiatives to maximise facility uptime to enable stable production. Reservoir performance has been strong and remains broadly in line with the Group's expectations. We have seen excellent communication between producer and injector wells and our improving management of reservoir voidage following repairs to the water injection system also supported reservoir deliverability.

The delayed arrival of the drilling rig at Drill Centre 4 ('DC4') resulted in drilling commencing later than planned with first production from the wells being rephased accordingly. Drilling at DC4 is nearing completion, with the first two of three wells now onstream. We continue to assess future opportunities at Kraken that have material volumes of oil in place for future development, such as the Western Flank.

At the Sullom Voe Terminal, the Group reduced terminal operating costs by around 25%, to approximately £150.0 million, through the implementation of a number of efficiency initiatives. We also assisted in three ship-to-ship transfers of oil in the Port of Sullom Voe, and the Group continues to explore opportunities to maximise the long-term value of the terminal.

Malaysia operations

Production in 2018 was slightly lower than in 2017, primarily reflecting natural decline at Tanjong Baram. Our focus on asset integrity, which included underwater structural integrity assessments and gas compressor rejuvenation, helped drive continued high levels of production efficiency at PM8/Seligi. The regulator recognised the Group's efforts with an award for the 'Highest Improvement' in relation to offshore self-regulation. Our programme of well interventions continues to be successful in arresting the field's decline, and we successfully concluded EnQuest's first ever drilling campaign at PM8/Seligi, with aggregate production from the two new wells in line with expectations.

"2019 PRODUCTION IS EXPECTED TO GROW BY AROUND 20% TO BETWEEN 63,000 AND 70,000 BOEPD."

EnQuest will continue its asset life extension activities in 2019 through further investment in two new wells, idle well restoration and facility improvements and upgrades. Technical studies to support future development drilling and secondary recovery projects to increase ultimate recovery from the material volumes in place in PM8/Seligi are also under way.

2019 performance and outlook

Following effective reservoir management and well intervention work at Magnus, performance has remained strong through the first two months of the year. FPSO performance has continued to limit production performance at Kraken. All DC4 wells are now onstream and, as FPSO maintenance activities are completed, production is expected to significantly improve. We continue to expect to deliver gross production of between 30,000 and 35,000 Bopd from Kraken. Elsewhere across the portfolio, aggregate production has been broadly in line with the Group's expectations.

2019 production is expected to grow by around 20% to between 63,000 and 70,000 Boepd, primarily driven by Magnus. Production from DC4 at Kraken, where all three wells are now onstream, and the anticipated improvement in performance at Scolty/Crathes following the pipeline replacement project scheduled for the third quarter of 2019 are expected to offset natural declines elsewhere across the portfolio.

The successful delivery of the capital programme, which includes drilling at Kraken, Magnus and PM8/Seligi combined with project-related expenditures at Scolty/Crathes and Thistle/Deveron and the Dons, will underpin production during 2019 and beyond.

Debt repayment remains the priority for the Group, and will be enabled through its improved cash-generation capability combined with our focus on cost control and capital discipline. In March, the Group reduced its credit facility by $55.0 million to $730.0 million, ahead of the scheduled amortisation due in April, which now has a balance due of $50.0 million. At the end of 2019, the Group expects overall net debt to EBITDA to be approaching 2x, with the Group intending to operate between 1x and 2x in the future.

Longer-term development

In the near term, we remain focused on delivering on our plans to reduce our debt. We also have the opportunity for material growth where our portfolio has significant potential for near-field, short-cycle development, particularly at Magnus, PM8/Seligi and Kraken.

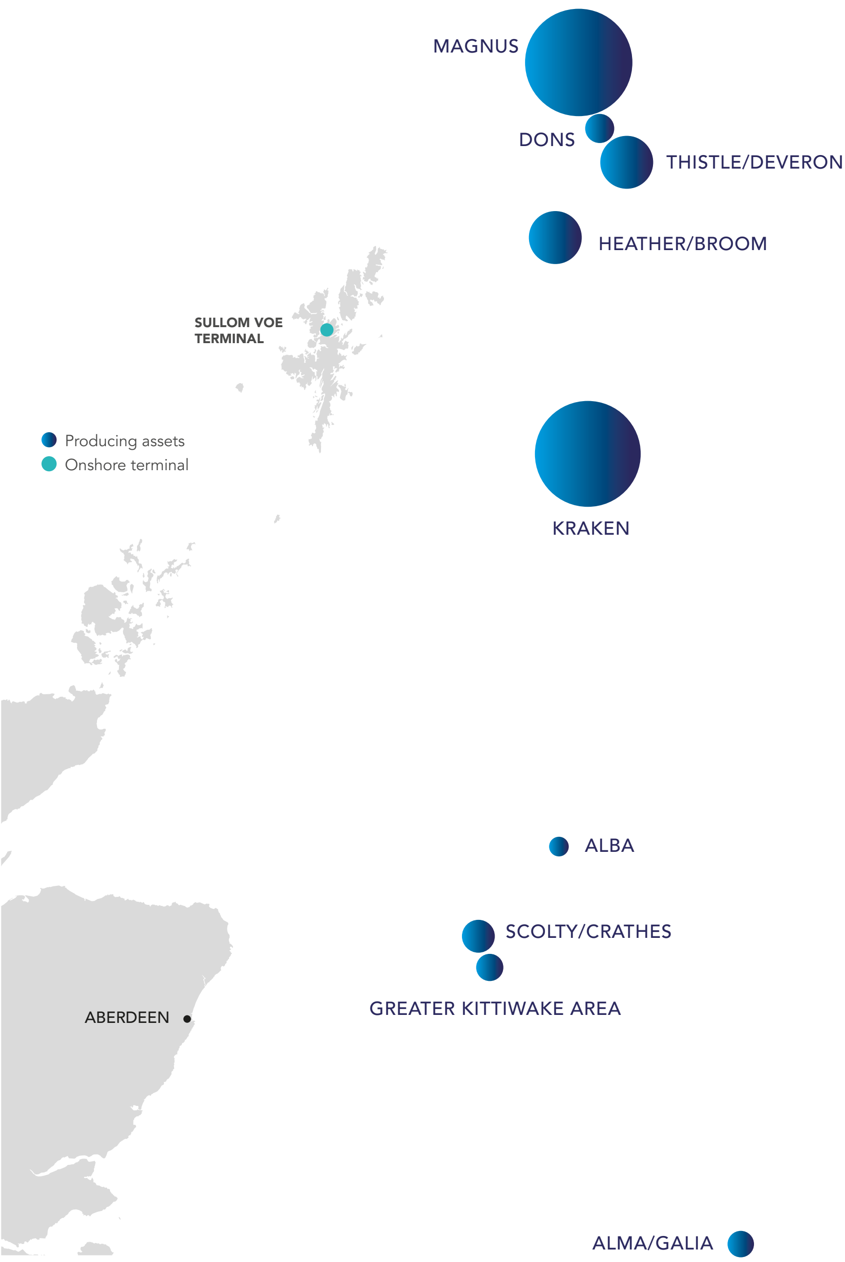
After we have reduced our debt to sustainable levels, and dependent on price conditions and company performance, our capital allocation will balance investment to develop our asset base, returns to shareholders and the acquisition of suitable growth opportunities. The application of our proven capabilities in enhancing hydrocarbon recovery from mature and underdeveloped assets means we are well placed to pursue long-term sustainable growth.

OPERATING REVIEW

During 2018, Faysal Hamza stepped down as Interim Head of North Sea and Managing Director – North Sea, returning to his previous role as Managing Director, Corporate Development.

"OUR PRODUCTION PERFORMANCE IS NOW UNDERPINNED BY TWO MATERIAL ASSETS IN MAGNUS AND KRAKEN, BOTH WITH SIGNIFICANT DEVELOPMENT OPPORTUNITIES."

Bob Davenport
Managing Director – North Sea



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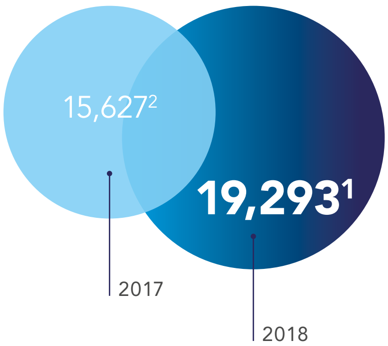
NORTHERN NORTH SEA OPERATIONS

DAILY AVERAGE NET PRODUCTION:
(Boepd)



Notes:
1 Includes net production related to 25% interest in Magnus until 30 November 2018 and 100% interest of Magnus from 1 December 2018, averaged over the 12 months to the end of December 2018
2 Includes net production from the initial 25% interest in Magnus since the acquisition on 1 December 2017, averaged over the 12 months to the end of December 2017

2018 performance summary

Production in 2018 of 19,293 Boepd was 23.5% higher than in 2017, primarily reflecting a full year's contribution from Magnus and better than expected performance from the H-67 well at Heather, which came online in March, partially offset by natural declines across the area. Good production and water injection efficiency performance was achieved at Heather/Broom, Thistle and the Dons, with production efficiency at each of these fields above 80%.

Magnus performance has been strong throughout 2018, also achieving production efficiency above 80%. Successful plant de-bottlenecking, completion of the planned maintenance shutdown and additional production following the two well drilling campaign were complemented by successful well intervention activities. Water injection performance has been strong, with high levels of uptime throughout the year, reflecting the Group's analysis of historical power generation reliability and a focus on alleviating downtime issues.

EnQuest continued to pursue a series of partner-funded idle well reservoir abandonments as part of the Group's asset life extension strategy, improving asset integrity and reducing longer-term decommissioning costs. At Thistle, six well abandonments were successfully concluded ahead of schedule and at a lower cost than budgeted, with the team subsequently mobilised to Heather to undertake abandonment work on two wells.

In June, the Dunlin bypass export project was sanctioned which, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal.

At the Sullom Voe Terminal, the Group made excellent progress in the optimisation of its planned work programme and identified and implemented a number of cost-saving initiatives. The Group was successful in reducing terminal operating costs by around 25% to approximately £150.0 million through focused supply chain management, efficient project delivery and simplifying and improving utilisation of the resources on site. These savings were achieved while delivering a strong safety performance and high levels of site availability. In line with the Group's aim to maximise the long-term value of the terminal, the Group has worked with the Shetland Islands Council and other stakeholders to deliver three ship-to-ship transfers of crude oil at the terminal.

2019 performance and outlook

Strong production performance at Magnus has continued, with aggregate production elsewhere broadly in line with the Group's plans.

At Magnus, the Group is focused on maintaining and improving production through a combination of drilling two new wells, further well intervention activity and increases in the facility's water injection capacity by returning to service the second of two deaeration towers on the asset and improving pump operations. EnQuest will continue to optimise the volumes and placement of both injected water and gas to maintain production. A three-week shutdown is planned for the second quarter.

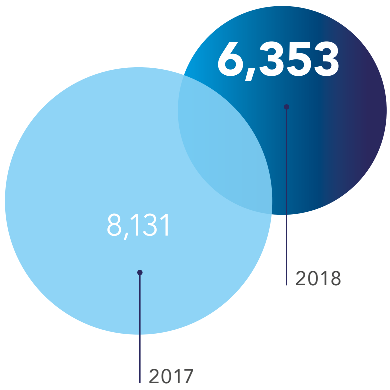
The planned two-week maintenance shutdowns at Thistle and the Dons are expected to take place in the summer and have been coordinated with the operator of the existing third-party export route and the timing of the installation of the Dunlin bypass pipeline to minimise downtime during the pipeline's commissioning phase. Drilling of the Dons North East prospect continues to be evaluated.

At Heather/Broom, further well abandonments are expected to be executed during the year along with a scheduled three-week shutdown in the third quarter. Further well intervention and drilling opportunities are being developed.

OPERATING REVIEW CONTINUED

CENTRAL NORTH SEA OPERATIONS

DAILY AVERAGE NET PRODUCTION:
(Boepd)



2018 performance summary

Production in 2018 of 6,353 Boepd was 21.9% lower than in 2017. The reduction was primarily driven by the expected performance at both Scolty/Crathes and Alma/Galia, although production at both assets was slightly better than anticipated with production efficiency at both fields above 80%.

At Alma/Galia, three failed Electric Submersible Pumps ('ESP') were successfully replaced during the third quarter, restoring aggregate production in line with plans. Production and water injection efficiency were strong, although partially offset by the end of production from the Galia reservoir following the cessation of the originally installed ESP.

Good management of wax deposition at Scolty/Crathes drove a better than expected performance and the installation of the new pipeline was sanctioned in June. Wax restrictions on production will continue to be managed until the pipeline is operational.

Aggregate production from Kittiwake and Alba was slightly ahead of expectations. Anticipated natural declines were partially mitigated by better than expected production and water injection efficiency. The team at Kittiwake delivered production efficiency of around 80% while also achieving another strong HSE&A performance, reaching 13 years without a lost-time incident.

2019 performance and outlook

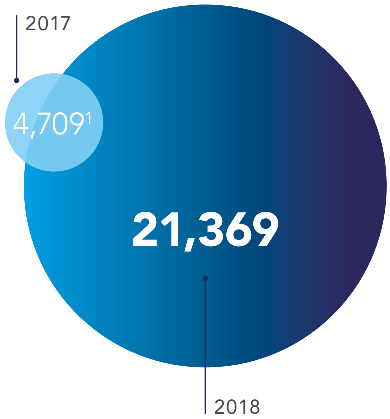
Performance to the end of February has been broadly in line with the Group's expectations.

The Scolty/Crathes pipeline is expected to be installed during the third quarter. To facilitate annual maintenance and the required pipeline installation and commissioning activities, a shutdown of approximately six weeks has been planned. Once complete, production levels at Scolty/Crathes are expected to improve significantly. At Kittiwake, production optimisation activities and development options for the Eagle discovery continue to be evaluated. Following an extensive asset integrity campaign across the Greater Kittiwake Area in 2018, a short shutdown is planned during the third quarter.

With Alma/Galia expected to cease production early in the next decade, the focus is on production optimisation and cost control, with preparatory decommissioning plans now under way. A two-week scheduled shutdown is planned for the second quarter.

THE KRAKEN DEVELOPMENT

DAILY AVERAGE NET PRODUCTION:
(Bopd)



Note:
1 Net production since first oil on 23 June, averaged over the 12 months to the end of December 2017

2018 performance summary

Average gross production for 2018 was below expectations. Throughout 2018, production was limited by a number of FPSO system and weather-related outages which required additional maintenance activities to resolve. Following repairs to the water injection system, injection rates were significantly increased to manage reservoir voidage, which in turn supported improved reservoir deliverability. Reservoir performance remains on track with well testing and reservoir modelling showing excellent communication between producer and injector wells. Net lease charter payment credits arising from the non-availability of the Kraken FPSO in 2018 were approximately $45 million, which partially mitigated the loss of revenue associated with lower production performance.

At DC4, the subsea infrastructure was installed in line with plans. Drilling commenced in November after the delayed arrival of the Transocean Leader drilling rig, with first production from the wells being rephased to the end of the first quarter 2019. As a result of improved reservoir understanding, the Group gained approval for developing DC4 with three wells instead of the four originally planned, saving approximately $23 million with no material impact on oil production rates or recovery anticipated.

2019 performance and outlook

FPSO performance has continued to limit production performance at Kraken. All DC4 wells are now onstream and performing in line with expectations. As FPSO maintenance activities are completed, production is expected to significantly improve. We continue to expect to deliver gross production of between 30,000 and 35,000 Bopd from Kraken.

A three-week maintenance shutdown is scheduled for the third quarter.

The Group continues to pursue opportunities for production optimisation through improving facility uptime and reservoir management activities, including well tests, water injection and reservoir voidage. Assessment of additional near-field, low-cost drilling opportunities within the existing producing reservoir and the Western Flank, which combined contain around 115 MMbbls of stock tank oil initially in place, is ongoing.

"THE FIRST TWO WELLS ENQUEST HAS DRILLED AT PM8/SELIGI DELIVERED AGGREGATE PRODUCTION IN LINE WITH THE PRE-DRILL ESTIMATES, WHILE THE GROUP'S IDLE WELL INTERVENTION PROGRAMME CONTINUES TO ARREST THE FIELD'S NATURAL DECLINE."

John Penrose
Managing Director, Malaysia

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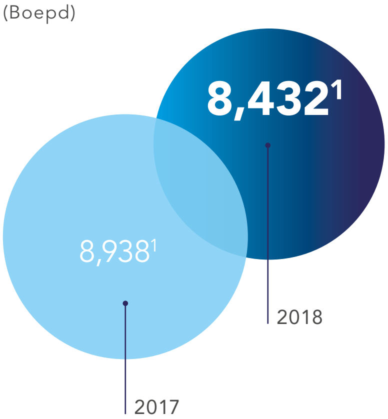
DAILY AVERAGE NET PRODUCTION:
(Boepd)



Note:
1 Working interest. 2018 entitlement: 5,631 Boepd; 2017 entitlement: 5,884 Boepd

MALAYSIA OPERATIONS

2018 performance summary

Production in 2018 of 8,432 Boepd was 5.7% lower than in 2017, primarily reflecting natural decline at Tanjong Baram. Production efficiency has remained high at PM8/Seligi, with the planned shutdown activities in September and October successfully concluded ahead of budget and schedule. During the year, the Group undertook a significant low-cost idle well intervention programme at PM8/Seligi. In total, 12 idle wells were returned to service ahead of schedule and below budget, delivering production improvements above the Group's plans. Such programmes have been fundamental to arresting natural declines at the field since EnQuest took on operatorship. The Group also drilled its first new wells in the field, with aggregate production broadly in line with the Group's expectations. Asset integrity activities included underwater structural inspections for a number of assets, gas compressor rejuvenation and improving satellite facility monsoon reliability performance through the upgrade of control and shutdown systems. The installation of multi-phase flow meters at PM8/Seligi platforms B, E and Raya-A and remote well monitoring and testing at the satellite facilities will facilitate improved well optimisation. The team received an award for the 'Highest Improvement' in relation to offshore self-regulation, reflecting the Group's focus on safety and continuous improvement.

At Tanjong Baram, the focus remained on steady, safe and low-cost operations. Third-party export facility outages limited production efficiency and uptime throughout the year.

2019 performance and outlook

Aggregate production from PM8/Seligi and Tanjong Baram has been in line with the Group's expectations for the first two months of 2019, with the Group receiving an award for meeting domestic demand fluctuations for natural gas.

At PM8/Seligi, a two-well drilling campaign is expected to be executed in the third quarter of 2019, with first production from both wells around the end of the quarter. Further subsurface studies will be completed to enable the Group to continue to develop and optimise its future drilling opportunities to further increase recovery from the significant hydrocarbons in place, targeting an increase in production over time.

Further idle well intervention activities are planned throughout the year, with the Group planning to return to service around ten wells in order to mitigate natural decline in the reservoir.

2019 will also benefit from asset rejuvenation activity, including idle piping isolation, pipework maintenance, glycol dehydration unit rejuvenation and a compressor turbine control panel upgrade. A minimal shutdown is planned this year and is aligned with the third-party operated oil export pipeline and terminal maintenance activities to minimise downtime.

Longer term, EnQuest will extend field life through further investment in idle well restoration, facility improvements and upgrades and technical studies supporting development drilling and secondary recovery projects to increase ultimate recovery.

At Tanjong Baram, the focus is on maintaining safe operations, with production expected to continue to decline.

RESERVES AND RESOURCES

EnQuest oil and gas reserves and resources at 31 December 2018

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves (notes 1, 2, 3, 6 and 8)					
At 31 December 2017		190		21	210
Revisions of previous estimates		(3)		1	(2)
Acquisitions and disposals (note 7)		55		–	55
Production:					
Export meter	(17)		(3)		
Volume adjustments (note 5)	0		1		
		(17)		(2)	(19)
Total at 31 December 2018 (note 8)		**225**		**20**	**245**
Contingent resources (notes 1, 2 and 4)					
At 31 December 2017		98		67	164
Revisions of previous estimates		4		1	5
Acquisitions and disposals (note 7)		36		–	36
Promoted to reserves		(6)		–	(6)
Total contingent resources at 31 December 2018		**131**		**68**	**198**

Notes:
1 Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis
2 Proven and probable reserves and contingent resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data
3 The Group's proven and probable reserves profiles have been audited by a recognised Competent Person in accordance with the definitions set out under the 2018 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers
4 Contingent resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis
5 Correction of export to sales volumes
6 All UKCS volumes are presented pre-SVT value adjustment
7 Proven and probable reserves: Acquisition of 75% equity in Magnus
Contingent resources: Acquisition of 75% equity in Magnus largely offset by relinquishment of the Group's equity interests in the Kildrummy and Torphins licences
8 The above proven and probable reserves include 6 MMboe that will be consumed as lease fuel on the Kraken FPSO and fuel gas on Heather, Broom, West Don, Don SW, Conrie and Ythan
9 The above table excludes Tanjong Baram in Malaysia

The Group's net 2P reserves at the end of 2018 were 245 MMboe, up 16.6% from 210 MMboe at the end of 2017. This increase was primarily driven by the acquisition of the additional 75% interest in Magnus, partially offset by production of 19 MMboe.

Contingent resources at the end of 2018 were 198 MMboe, up 20.7% from 164 MMboe at the end of 2017. This increase was driven by the acquisition of the additional 75% interest in Magnus, partially offset by the relinquishment of the Group's Kildrummy and Torphins licences.

For more details
Read more on pages 10 to 19

HYDROCARBON ASSETS

EnQuest's asset base as at 31 December 2018

Licence	Block(s)	Working interest (%)	Name	Decommissioning obligation
North Sea production and development				
P073	21/12a	50.0	Goosander	As per working interests
P193	211/7a & 211/12a	100.0[1]	Magnus	30.0%[2]
P213[3]	16/26a	8.0	Alba	As per working interests
P236	211/18a	99.0	Thistle & Deveron	7.5%[4]
P236	211/18a	60.0	Don SW & Conrie	As per working interests
P236/P1200	211/18b & 211/13b	78.6	West Don	As per working interests
P238	21/18a, 21/19a & 21/19b	50.0	Kittiwake Mallard Grouse & Gadwall Eagle[5]	25.0% 30.5% As per working interests n/a
P242	2/5a	100.0	Heather	37.5%
P242/P902	2/5a & 2/4a	63.0	Broom	As per working interests
P475	211/19s	99.0	Thistle	7.5%[4]
P1077	9/2b	70.5	Kraken & Kraken North	As per working interests
P1107/P1617	21/8a, 21/12c & 21/13a	50.0	Scolty & Crathes	As per working interests
P1765/P1825	30/24c & 30/25c, 30/24b	65.0	Alma & Galia	As per working interests
P2137	211/18e, 211/19a & 211/19c	60.0	Ythan	As per working interests
Other North Sea licences				
P90[3]	9/15a	33.33		n/a
P2177	21/14b, 21/19c & 21/20b	50.0		n/a
P2334	211/13c & 211/18h	60.0		n/a
Malaysia production and development				
Tanjong Baram SFRSC[6]	Tanjong Baram	70.0	Tanjong Baram	n/a
PM8/Seligi[7]	PM8 Extension	50.0	Seligi, North & South Raya, Lawang, Langat, Yong and Serudon	50.0%

Notes:

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

FINANCIAL REVIEW

"THE CASH-GENERATING CAPABILITY OF THE GROUP HAS BEEN MATERIALLY ENHANCED THROUGH THE ACQUISITION OF THE ADDITIONAL INTEREST IN MAGNUS."

Jonathan Swinney
Chief Financial Officer

Financial overview

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

The Group made significant progress in 2018, meeting our targets, maintaining financial discipline and making substantial repayments of our bank debt. Significant time and attention were devoted to completing the acquisition of assets from BP and executing the financing agreement for a 15% share of Kraken, which have strengthened the balance sheet and enhanced liquidity.

Production on a working interest basis increased by 48.2% to 55,447 Boepd, compared to 37,405 Boepd in 2017. The full year's contribution from Magnus, including the post-acquisition impact of an additional 75% equity interest in December, increased volumes at Kraken and the strong performance at Heather were partially offset by anticipated lower production at Alma/Galia and Scolty/Crathes, along with natural declines across the portfolio.

Revenue for 2018 was $1,201.0 million, 89.1% higher than in 2017 ($635.2 million) reflecting the material increase in volumes and higher realised prices. The Group's commodity hedge programme resulted in realised losses of $93.0 million in 2018 (2017: losses of $20.6 million) as a result of the timing at which the hedges were entered into and the increase in market prices during the first half of 2018 in particular.

The Group's operating expenditures of $465.9 million were 33.4% higher than in 2017 ($349.3 million) reflecting the full year contribution of the Kraken and Magnus assets. Unit operating costs decreased by 10.2% to $23.0/Boe (2017: $25.6/Boe) as a result of increased production.

EBITDA for 2018 was $716.3 million, up 135.9% compared to 2017 ($303.6 million), primarily as a result of increased revenue.

	2018 $ million	2017 $ million
Profit from operations before tax and finance income/(costs)	**290.0**	47.3
Depletion and depreciation	**442.4**	227.6
Inventory revaluation	**5.8**	–
Net foreign exchange (gain)/loss	**(21.9)**	23.9
Realised (gain)/loss on FX derivatives related to capital expenditure[1]	**–**	4.8
EBITDA	**716.3**	303.6

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

EnQuest's net debt decreased by $216.9 million to $1,774.5 million at 31 December 2018 (31 December 2017: $1,991.4 million). This includes $132.0 million of interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('Payable in Kind' or 'PIK') (31 December 2017: $90.5 million) (see note 19 for further details). Excluding PIK capitalised in 2018, net debt reduced by $258.4 million.

	Net debt/(cash)	
	31 December 2018 $ million	31 December 2017 $ million
Bonds[1]	**965.1**	944.9
Multi-currency revolving credit facility[2] ('RCF')	**799.4**	1,100.0
Oz Management facility	**178.5**	–
Tanjong Baram Project Finance Facility	**31.7**	8.5
Mercuria Prepayment Facility	**22.2**	75.5
SVT Working Capital Facility	**15.7**	25.6
Other loans	**2.5**	10.0
Cash and cash equivalents	**(240.6)**	(173.1)
Net debt	**1,774.5**	1,991.4

Notes:
1 Stated excluding accrued interest and accounting adjustment on adoption of IFRS 9 Financial Instruments of $33.4 million, and excluding the net-off of unamortised fees. Includes $117.5 million of PIK (2017: $85.7 million)
2 Stated excluding accrued interest and excluding the net-off of unamortised fees. Includes $14.4 million of PIK (2017: $4.8 million)

During the year, the Group's improved cash generation and the Kraken financing agreement facilitated cancellation and repayment of $340.0 million of the RCF, more than the scheduled amortisation requirement. In March 2019, EnQuest repaid an additional $55.0 million early with further scheduled amortisation reductions under the facility due in April 2019 ($50.0 million) and October 2019 ($100.0 million).

As at 31 December 2018, total cash and available facilities totalled $309.0 million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $107.3 million (2017: $270.9 million including ring-fenced accounts associated with Magnus and other joint venture accounts totalling $71.9 million). Undrawn available facilities amounted to $68.4 million at the end of 2018 (2017: $97.8 million).

UK corporate tax losses at the end of the year remained broadly in line with 2017 at $3,225.3 million (2017: $3,121.3 million). The Group generated taxable profits as production from Kraken increased and completed the acquisition of 75% of the Magnus field and associated infrastructure. Both utilised existing tax losses, which were largely offset by additional Ring Fence Expenditure Supplement ('RFES') generated in the period.

In the current environment, no significant corporation tax or supplementary corporation tax is expected to be paid on UK operational activities for the foreseeable future. During 2018, cash tax has been paid on the profits generated from Magnus and associated infrastructure assets prior to the completion of the acquisition of the additional interests. As part of this transaction, the assets were transferred to EnQuest Heather Ltd from EnQuest NNS Ltd, which allows profits generated by these assets to be offset against tax losses. Post-transfer, no taxes are expected to be payable in respect of these assets for the foreseeable future. The Group also paid cash corporate income tax on the Malaysian assets which will continue throughout the life of the Production Sharing Contract.

Income statement

Production and revenue

Production on a working interest basis increased by 48.2% to 55,447 Boepd, compared to 37,405 Boepd in 2017. The full year's contribution from Magnus, including the post-acquisition impact of an additional 75% equity interest in December, increased volumes at Kraken and the strong performance at Heather were partially offset by anticipated lower production at Alma/Galia and Scolty/Crathes, along with natural declines across the portfolio.

On average, market prices for crude oil in 2018 were higher than in 2017. The Group's blended average realised oil price excluding the impact of hedging was $66.2/bbl, 22.8% higher than in 2017 ($53.9/bbl). Revenue is predominantly derived from crude oil sales which totalled $1,237.6 million, 94.3% higher than in 2017 ($637.0 million), reflecting the material increase in volumes and higher realised prices. Revenue from the sale of condensate and gas was $43.1 million (2017: $2.8 million) as a result of sales of gas from Magnus, which includes the combination of produced gas sales and the onward sale of third-party gas purchases not required for injection activities, for which the costs are included in other cost of sales. Tariffs and other income generated $13.4 million (2017: $16.0 million). The Group's commodity hedges and other oil derivatives generated $93.0 million of realised losses (2017: $20.6 million), including losses of $17.2 million of non-cash amortisation of option premiums (2017: losses of $10.4 million) as a result of the timing at which the hedges were entered into and the increase in market prices during the first half of 2018 in particular. The Group's blended average realised oil price including the impact of hedging was $61.2/bbl in 2018, 17.2% higher than 2017 ($52.2/bbl).

Cost of sales

	2018 $ million	2017 $ million
Production costs	**396.9**	287.1
Tariff and transportation expenses	**68.4**	62.2
Realised (gain)/loss on FX derivatives related to operating costs	**0.6**	–
Operating costs	**465.9**	349.3
Realised (gain)/loss on FX derivatives related to capital expenditure	**–**	4.8
(Credit)/charge relating to the Group's lifting position and inventory	**(25.1)**	(20.4)
Depletion of oil and gas assets	**437.1**	223.1
Other cost of sales	**48.1**	12.7
Cost of sales	**926.0**	569.5
Operating cost per barrel[1]	**$/Boe**	$/Boe
– Production costs	**19.6**	21.0
– Tariff and transportation expenses	**3.4**	4.6
	23.0	25.6

Note:
1 Calculated on a working interest basis

Cost of sales were $926.0 million for the year ended 31 December 2018, 62.6% higher than in 2017 ($569.5 million). Operating costs increased by $116.6 million, reflecting the full year contribution of Kraken and Magnus partly offset by the benefit of a weaker Sterling exchange rate. The Group's average unit operating cost decreased by 10.2% to $23.0/Boe as a result of increased production.

Depletion expense of $437.1 million was 95.9% higher than in 2017 ($223.1 million), mainly reflecting the contribution from Kraken and Magnus in 2018. Other cost of sales of $48.1 million were higher than in 2017 ($12.7 million), principally reflecting the cost of additional Magnus related third-party gas purchases not required for injection activities.

General and administrative expenses

General and administrative expenses were $4.0 million (2017: $0.8 million), reflecting the Group's personnel and property costs.

Other income and expenses

Net other income of $19.1 million (2017: net other expenses of $17.6 million) primarily comprises net foreign exchange gains, which relate to the revaluation of Sterling-denominated amounts in the balance sheet following the weakening of Sterling against the Dollar. The prior year expense comprised net foreign exchange losses, offset by one-off general and administration recovery impacts.

Finance costs

Finance costs of $236.1 million were 58.5% higher than in 2017 ($149.0 million). The increase was primarily driven by a $40.8 million reduction in capitalised interest as a result of the Kraken project coming onstream in 2017 (2018: $1.5 million; 2017: $42.3 million), an additional $24.5 million in finance lease interest (2018: $55.8 million; 2017: $31.3 million), $19.7 million additional bond and loan interest charges (2018: $157.7 million; 2017: $137.9 million) and an additional $0.5 million relating to the unwinding of discount on provisions and liabilities, largely in respect of decommissioning (2018: $14.0 million; 2017: $13.5 million). Other finance costs included $8.5 million amortisation of arrangement fees for financing facilities and bonds (2017: $2.8 million) and other financial expenses of $1.7 million (2017: $5.9 million), primarily the cost for surety bonds principally to provide security for decommissioning liabilities.

Finance income

Finance income of $3.4 million (2017: $2.2 million) includes $1.8 million of bank interest receivable (2017: $0.4 million) and $1.5 million from the unwind of the discount on financial assets (2017: $1.8 million).

Taxation

The tax credit for 2018 of $20.9 million (2017: $66.0 million tax credit), excluding exceptional items, is mainly due to the RFES on UK activities.

Earnings per share

The Group's Business performance basic profit per share was 6.4 cents (2017: loss per share of 2.5 cents, restated for bonus element of rights issue) and Business performance diluted profit per share was 6.2 cents (2017: loss per share of 2.5 cents, restated for bonus element of rights issue).

Remeasurement and exceptional items

Revenue included unrealised gains of $97.4 million in respect of the mark to market movement on the Group's commodity contracts (2017: unrealised loss of $7.7 million).

Non-cash impairment charge on the Group's oil and gas assets arising from changes in assumptions combined with change in production profiles in the North Sea totalled $126.0 million (2017: $172.0 million).

FINANCIAL REVIEW CONTINUED

Other income and expense included a $1.3 million loss on fair value in relation to the revaluation of the option to purchase the remaining 75% of Magnus and other interests and the fair value uplift of the initial acquisition assets on the accounting step acquisition of $74.3 million. It also includes the reversal of a contingent provision of $5.3 million.

A tax credit of $12.4 million (2017: credit of $117.0 million) has been presented as exceptional, representing the tax impact of the above items.

Earnings per share

The Group's reported basic profit per share was 10.4 cents (2017: loss per share of 4.6 cents, restated for bonus element of rights issue) and reported diluted profit per share was 10.1 cents (2017: loss per share of 4.6 cents, restated for bonus element of rights issue).

Cash flow and liquidity

Net debt at 31 December 2018 amounted to $1,774.5 million, including PIK of $132.0 million, compared with net debt of $1,991.4 million at 31 December 2017, including PIK of $90.5 million. The Group has remained in compliance with financial covenants under its debt facilities throughout the year. The movement in net debt was as follows:

	$ million
Net debt 1 January 2018	**(1,991.4)**
Operating cash flows	794.4
Cash capital expenditure	(220.2)
Finance lease payments	(144.8)
Net cash proceeds from rights issue	128.9
Magnus acquisition consideration	(100.0)
Vendor loan repayments on Magnus financing	(48.6)
Net interest and finance costs paid	(155.3)
Non-cash capitalisation of interest	(45.0)
Other movements, primarily net foreign exchange on cash and debt	7.5
Net debt 31 December 2018	**(1,774.5)**

Note:
1 Stated including $117.5 million of bond PIK (2017: $85.7 million) and $14.4 million of facility PIK (2017: $4.8 million). Capitalised interest on Oz Management facility of $3.5 million (2017: $nil)

The Group's reported operating cash flows for the year ended 31 December 2018 were $794.4 million, up 163.2% compared to 2017 ($301.8 million). The main drivers for this increase were the material increase in volumes and higher realised prices, partly offset by commodity price hedges.

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

	Year ended 31 December 2018 $ million	Year ended 31 December 2017 $ million
North Sea	**200.2**	355.3
Malaysia	**19.5**	3.1
Exploration and evaluation	**0.5**	9.2
	220.2	367.6

Cash capital expenditure primarily relates to Kraken activities and well drilling on Heather/Broom and PM8/Seligi.

Balance sheet

The Group's total asset value has increased by $642.6 million to $5,681.1 million at 31 December 2018 (2017: $5,038.5 million), mainly attributable to the acquisition of the remaining 75% of Magnus and associated assets. Net current liabilities have decreased to $301.2 million as at 31 December 2018 (2017: $377.9 million).

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

PP&E has increased by $501.3 million to $4,349.9 million at 31 December 2018 from $3,848.6 million at 31 December 2017 (see note 10). This increase is explained by the capital additions to PP&E of $181.5 million, additions of $745.4 million for the acquisition of the remaining 75% interest in Magnus and additional interests in associated assets, additions of $123.9 million on the uplift of the original 25% acquisition, a net increase of $19.0 million for changes in estimates for decommissioning and other provisions, including the KUFPEC cost recovery provision, offset by depletion and depreciation charges of $442.4 million and non-cash impairments of $126.0 million.

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

	2018 $ million
Kraken	**70.3**
Northern North Sea	**53.8**
Central North Sea	**41.6**
Malaysia	**15.8**
	181.5

Intangible oil and gas assets

Intangible oil and gas assets marginally decreased to $51.8 million at 31 December 2018 (31 December 2017: $52.1 million).

Trade and other receivables

Trade and other receivables have increased by $48.0 million to $275.8 million at 31 December 2018 compared with $227.8 million at 31 December 2017 (see note 15).

Cash and net debt[1]

The Group had $240.6 million of cash and cash equivalents at 31 December 2018 and $1,774.5 million of net debt, including PIK and capitalised interest of $135.5 million (2017: $173.1 million of cash and cash equivalents and $1,991.4 million of net debt, including PIK of $90.5 million).

Net debt[1] comprises the following liabilities:

- $218.9 million principal outstanding on the £155 million retail bond, including interest capitalised as an amount PIK of $21.5 million in the year (2017: $224.1 million and $14.9 million, respectively);
- $746.1 million principal outstanding on the high yield bond, including PIK of $96.1 million in the year (2017: $720.8 million and $70.8 million, respectively);
- $799.4 million carrying value of credit facility, comprising amounts drawn down of $785.0 million and PIK interest of $14.4 million (2017: $1,100.0 million comprising amounts drawn down of $1,095.2 million and PIK interest of $4.8 million);
- $178.5 million carrying value of Oz Management facility, comprising amounts drawn down of $175.0 million and capitalised interest of $3.5 million (2017: $nil);
- $15.7 million relating to the SVT Working Capital Facility (2017: $25.6 million);
- $22.2 million relating to the Mercuria Prepayment Facility (2017: $75.5 million);
- $2.5 million outstanding from a trade creditor loan (2017: $10.0 million); and
- $31.7 million principal outstanding on the Tanjong Baram Project Finance Facility (2017: $8.5 million).

Note:
1 Net debt excludes accrued interest, accounting adjustment on adoption of IFRS 9 Financial Instruments and the net-off of unamortised fees (see note 19)

Provisions
The Group's decommissioning provision increased by $32.4 million to $671.7 million at 31 December 2018 (2017: $639.3 million). The movement is explained by an increase of $29.9 million due to changes in estimates (including the impact of oil prices and foreign exchange rates) and $12.6 million unwinding of discount, partially offset by reductions of $10.0 million for decommissioning carried out in the period.

Other provisions increased by $605.4 million in 2018 to $715.4 million (2017: $110.0 million). Key movements during the period primarily related to the remaining acquisition of 75% of Magnus and additional interests in SVT and associated infrastructure assets from BP. An addition of $625.3 million reflects the discounted amounts expected to be due under the terms of the Magnus vendor loan and long-term profit sharing agreement associated with the 75% interest. In 2018, EnQuest repaid $48.6 million of the outstanding vendor loan associated with the initial 25% interest, and recognised a change in estimate of $12.8 million on the outstanding contingent consideration (see note 29). Other provisions also includes EnQuest's obligation to make payments to BP by reference to 7.5% of BP's decommissioning costs of the Thistle and Deveron fields. $5.3 million of the movement relates to the utilisation of PM8/Seligi cost recovery.

Income tax
The Group had a UK corporation tax or supplementary corporation tax liability at 31 December 2018 of $12.2 million (2017: $nil), primarily reflecting tax payable on Magnus and associated infrastructure assets prior to the completion of the acquisition of additional interests and the transfer of these assets to EnQuest Heather Limited. Following transfer of the assets, no further tax is expected to be payable for the foreseeable future. The remainder of the income tax liability of $3.7 million related to corporate income tax on Malaysian assets (see note 7).

Deferred tax
The Group's net deferred tax asset has decreased from $335.6 million at 31 December 2017 to a net deferred tax asset of $258.9 million at 31 December 2018. The decrease is mainly due to the deferred tax liability generated as part of the business combination accounting for the Magnus acquisition during the period.

Total UK tax losses carried forward at the year end amount to $3,225.3 million (2017: $3,121.3 million) (see note 7).

ENQUEST VALUES

WORK COLLABORATIVELY

"Collaborative working creates great teams, promotes creative thinking and gives a shared purpose."

Duncan Macdonald
IS Project Portfolio Manager, UK

FINANCIAL REVIEW CONTINUED

Trade and other payables

Trade and other payables of $502.0 million at 31 December 2018 are $55.9 million higher than at 31 December 2017 ($446.1 million). $483.8 million are payable within one year (2017: $367.3 million) and $18.2 million are payable after more than one year (2017: $78.8 million). The increase in current payables mainly reflects VAT payments due at year end combined with other working capital movements (see note 23).

Obligations under finance leases

As at 31 December 2018, the Group held a finance lease liability of $709.0 million associated with the Kraken FPSO of which $93.2 million is classified as a current liability.

Other financial liabilities

As at the end of 2018, the Group had no other financial liabilities (2017: $68.3 million). The decrease primarily relates to the cash payment associated with waiver fees due to credit facility lenders and mark to market movements on the Group's commodity derivatives following the weakening of the oil price in late 2018.

Financial risk management

Oil price

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

During the year ended 31 December 2018, commodity derivatives generated a total gain of $4.4 million, with revenue and other operating income including a realised loss of $93.0 million. The losses were mostly in respect of the settlement of swaps and calls, and the amortisation of premiums on calls.

Foreign exchange

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

EnQuest continually reviews its currency exposures and, when appropriate, looks at opportunities to enter into foreign exchange hedging contracts. During the year ended 31 December 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 realised on contracts maturing during the year (2017: $nil).

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

Going concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and project timing and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also continued to take action to implement cost-saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2018 and 2019. At 31 December 2018, the Group had total cash and available facilities of $309.0 million, including ring-fenced accounts associated with Magnus, the Oz Management facility and other joint venture accounts totalling $107.3 million.

The Group's business plan ('Base case'), which underpins this going concern assessment, assumes Kraken production rates are in line with the Group's production guidance. The Base case has been updated for the forward curve and uses an oil price assumption of c.$61.9/bbl throughout 2019 and c.$60.7/bbl for first quarter 2020. This has been further stress tested under a plausible downside case ('Downside case') as described in the viability statement. Both cases reflect the bank debt amortisation profile due in the going concern period. The Directors consider the Base case and Downside case to be an appropriate basis on which to make their assessment.

The Base case and Downside case indicate that the Company is covenant compliant and able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts.

Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including asset sales or other funding options, can be executed successfully in the necessary timeframe to meet debt repayment obligations as they become due and in order to maintain liquidity.

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

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2022. This assessment has taken into account the Group's financial position as at March 2019, the future projections and the Group's principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties, and the actions management are taking to mitigate these risks are outlined on pages 36 to 43. The period of three years is deemed appropriate as it is the time horizon across which management constructs a detailed plan against which business performance is measured and also covers the period within which the Group's term loan and revolving credit facility is expected to be repaid. Based on the Group's projections, the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the period to March 2022.

The Group's business plan process has underpinned this assessment and has been used as the Base case. The business plan process takes account of the Group's principal risks and uncertainties, and has further been stress tested to understand the impact on the Group's liquidity and financial position of reasonably possible changes in these risks and/or assumptions.

The forecasts which underpin this assessment use the same oil price assumption as for the going concern assessment, with a longer term price assumption for the viability period being aligned to the current forward curve.

For the current assessment, the Directors also draw attention to the specific principal risks and uncertainties (and mitigants) identified below, which, individually or collectively, could have a material impact on the Group's viability during the period of review. In forming this view, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The impact of these risks and uncertainties, including their combined impact, has been reviewed by the Directors and the effectiveness and achievability of the potential mitigating actions have been considered.

Oil price volatility

A decline in oil and gas prices would adversely affect the Group's operations and financial condition. To mitigate oil price volatility, the Directors have hedged approximately 6.5 MMbbls of collar options at an average floor price of around $66/bbl in the first half of 2019. In accordance with the Oz Management facility agreement, the Group has a further approximately 1.5 MMbbls hedged across 2019 with an average floor price of around $56/bbl. The Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Kraken production

All production and injector wells on Drilling Centres ('DC') DC1, DC2, DC3 and DC4 are onstream. Both production processing trains are also online and production and injection wells are operating in line with expectations in aggregate. On the basis of this performance, and subject to delivering on the Group's plans to further optimise production and improve plant uptime, EnQuest expects to deliver planned production rates.

Access to funding

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

The Directors recognise the importance of ensuring medium-term liquidity and in particular to protect against potential future declines in the oil price. EnQuest has a committed $785 million Tranche A Term Loan and a further Tranche B $75 million revolving credit facility (collectively the 'Facility'). Across the Facility, $68 million remains available at 31 December 2018.

In addition, the maturity dates of the existing $746 million High Yield Bond and the £172 million Retail Notes (both figures inclusive of the PIK notes) is April 2022, with an option exercisable by the Group (at its absolute discretion) to extend the maturity date to October 2023 if the existing Facility is not fully repaid or refinanced by October 2020.

A further condition to the payment of interest on both the High Yield Bond and Retail Notes in cash is based on, amongst other things, the average prevailing oil price (dated Brent Futures benchmark as published by Platts) for the six-month period immediately preceding the day which is one month prior to the relevant interest payment date being at least $65 per barrel; otherwise interest payable is to be capitalised.

In conducting the viability review, these risks have been taken into account in the stress testing performed on the Base case described above.

Specifically the Base case has been subjected to stress testing by considering the impact of the following plausible downside risks:

- a 10.0% discount to the oil price forward curve;
- a 3.5% decrease in 2019 production and a 5.0% decrease from 2020 onwards;
- a 2.5% increase in operating costs except for fixed costs related to the Kraken FPSO; and
- a 2.5% increase in capital expenditure from 2020 onwards.

A scenario has been run illustrating the impact of the above risks on the Base case. This plausible Downside case indicates that mitigating actions, including asset sales or other funding options, would need to be undertaken for the Group to be viable for in some parts of the three-year period.

Notwithstanding the principal risks and uncertainties described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group can continue in operation and meet its commitments as they fall due over the viability period ending March 2022. Accordingly, the Directors therefore support this viability statement.

CORPORATE RESPONSIBILITY REVIEW

"WITH SAFETY AT THE HEART OF PERFORMANCE, ENQUEST IS COMMITTED TO DELIVER SAFE RESULTS THROUGH CONTINUOUS IMPROVEMENT."

Sandy Fettes
Technical Services and HSE&A Director

NON-FINANCIAL INFORMATION STATEMENT

The following information is prepared in accordance with section 414CB(1) of the Companies Act 2006.

Safe Results is not just a goal, but what we expect to achieve every day.

OUR PEOPLE

- We are committed to ensuring that EnQuest is a great place to work
- Through an integrated and collaborative approach we undertook a Values refresh during 2018
- We revised our Diversity and Inclusion Policy
- The Board approved the establishment of an Employee Forum as part of its workforce engagement activities, in line with the revised Corporate Governance Code published in July 2018

For more details
See pages 09, 11 and 32 to 34

The Group's risks and uncertainties are outlined on pages 36 to 43.

ENVIRONMENT

- EnQuest's priority is delivering Safe Results, with no harm to our people and respect for the environment
- Our Environmental Management System ensures our activities are conducted in such a way that we manage and mitigate our impact on the environment, which includes permitted hydrocarbon releases and discharges. Non-compliant releases and discharges from the Group's operations carry adverse reputational, financial and other consequences
- The Group acknowledges that a reduction in carbon emissions is of primary importance if the objectives of the UK Climate Change Act (2008) and the 2015 Paris Agreement are to be met. The Group endeavours to minimise carbon emissions from its operations as far as reasonably practicable
- EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

For more details
See pages 30 to 31

COMMUNITY

- EnQuest is fully committed to active community engagement programmes and encourages and supports charitable donations in the areas of improving health, education and welfare within the communities in which it works
- In EnQuest's first full year of operatorship at the Sullom Voe Terminal ('SVT') in December 2017, the Group has continued its charitable support on Shetland and its support of the Shetland Oil Terminal Environmental Advisory Group
- In Malaysia, EnQuest has provided educational support for university students and continued its support for underprivileged and orphaned children of the Good Samaritan House

For more details
See page 34

BUSINESS CONDUCT

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

For more details
See pages 34 and 35

GROUP LOST TIME INCIDENT FREQUENCY RATE[1]

-6.5%

2018	**0.43**
2017	0.46
2016	0.51

GREENHOUSE GAS EMISSIONS INTENSITY RATIO[2]

-17.6%

2018	**50.51**
2017	61.33
2016	62.11

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and 8 hours for onshore)
2 Ratio expressed in terms of kilogrammes of CO_2 emissions per EnQuest-produced barrel of oil equivalent and represents combined Scope 1 and Scope 2 extraction related emissions. See page 82 for more information

ENQUEST VALUES

RESPECT AND OPENNESS

"We have a great open culture at EnQuest. We communicate freely and engage at all levels across the organisation."

Lisa Proctor
Senior Reward Advisor, UK

CORPORATE RESPONSIBILITY REVIEW CONTINUED

Health, Safety, Environment and Assurance ('HSE&A')

The key components of EnQuest's HSE&A policy (which can be found on the Group's website, www.enquest.com, under Corporate Responsibility) are that the Company is committed to operating responsibly and will not compromise its health, safety or environmental standards to meet its business objectives. The EnQuest Board continues to receive regular information on the HSE&A performance of the Company, and specifically monitors health, safety, environmental and assurance reporting at each Board meeting and meetings of the Risk Committee, conscious that the Company may face reputational and/or financial risks should an incident occur.

The Group delivered on its commitment of continual improvement in HSE&A performance, witnessing excellent results in many areas and meeting the majority of performance targets.

In occupational safety, our Lost Time Incident ('LTI') performance remained strong in both the UK and Malaysia. During 2018, our teams at Kittiwake and PM8/Seligi recorded 13 and eight years, respectively, LTI free, while our Thistle, Northern Producer, EnQuest Producer and Heather assets in the UK North Sea and Tanjong Baram in Malaysia all recorded an LTI-free year. These milestones were achieved against a backdrop of ongoing high levels of activity on the assets.

With regard to HSE performance, in Malaysia the number of reportable hydrocarbon releases reduced to four and the team received positive feedback from the regulator, Malaysia Petroleum Management, with regard to the high levels of improvement from the Integrated Operational Asset Integrity Assurance ('IOAIA') process. They also received an award for the 'Highest Improvement' in relation to offshore self-regulation. On average, PM8/Seligi maintained flaring levels around 35% below the annual flare consent. In the UK, the teams delivered significant reductions in spills to sea compared to 2017. However, reportable hydrocarbon releases across the Group's UK operated assets increased slightly to six and we had a high-potential dropped-object incident associated with lifting operations at Magnus. We continue to learn from these events through extensive root cause analysis and the subsequent development and sharing of any required improvements across EnQuest's assets in an effort to limit the chance of reoccurrence.

Across the Group, good progress was made with the leading metrics in areas such as safety-critical maintenance deferrals, leadership site visits and close out of actions from incidents and audits, demonstrating our commitment to be proactive with regard to HSE&A. In both Malaysia and the UK, positive feedback from the respective regulators was received regarding the levels of transparency and trust that have been generated. This has allowed for better dissemination of learnings within EnQuest and across the industry.

EnQuest welcomes the drive for increased governance and transparency in relation to climate change, and discloses its assessment of associated potential risks to the execution of its strategy within the risks and uncertainties section of this report (see page 36). While hydrocarbons are expected to remain a key element of the UK and global energy mix for many years, the Group recognises that it must endeavour to minimise carbon emissions from its operations as far as practicable if the objectives of the UK Climate Change Act (2008) and the 2015 Paris Agreement are to be met. The Group endeavours to minimise carbon emissions from its operations through improving operational performance and the application of appropriate improvement initiatives, noting the ability to reduce carbon emissions is constrained by the original design of our later-life assets. The main sources of atmospheric emissions from EnQuest assets are from combustion plant associated with power generation and flaring.

Greenhouse gases are reported as appropriate. Attempts to minimise the quantity of CO_2 continued through optimisation of plant efficiencies and minimisation of flaring and venting where possible. The acquisition of Magnus and SVT has inevitably increased the quantity of CO_2 emitted by EnQuest in 2018.

"WE RECOGNISE OUR PEOPLE ARE CRITICAL TO OUR SUCCESS AND ARE COMMITTED TO ENSURING ENQUEST IS A GREAT PLACE TO WORK."

SVT operates under a Pollution Prevention and Control ('PPC') permit, granted by the Scottish Environmental Protection Agency ('SEPA'). SEPA's Compliance Assessment Scheme is designed to demonstrate the level of compliance associated with specific PPC permit conditions. EnQuest acknowledges the environmental sensitivities at SVT and the surrounding area and have employed a specialist third-party oil spill response company which is based on site.

During 2018, a greater level of collaboration has been witnessed between the UK and Malaysia and this will continue into 2019. Evidence of our continued commitment to improvement was demonstrated through the following activities:

UK North Sea:

- Continued with workforce awareness of SAFE behaviours and control of Major Accident Hazards via workshops, which provide a lasting demonstration of the potential consequences of hydrocarbon releases;
- Further developed the capabilities of Elected Safety Representatives and Environment Representatives through on and offshore engagement sessions allowing collaboration and sharing of learnings;
- Delivered the Level 1-3 Assurance Plan that focuses on the audit of the Safety and Environmental Management System, identifying findings that have been factored into asset and business improvement plans as part of the Group's commitment to continuous improvement;
- Continued with the roll-out of Life Saving Rules to underline the importance of maintaining standards and encouraging procedural compliance in our high-risk activities; and;
- Supported industry groups such as Step Change in Safety and Oil & Gas UK with our ongoing commitment to simplification initiatives and contributed to the industry 'Boots on for Safety' campaign to improve leadership visibility and workforce engagement.

Malaysia:

- Roll-out of HSE case during the first quarter of 2018;
- Major Accident Awareness training continued throughout the year;
- Completed the 2018 IOAIA audit by the regulator on ten assets with significantly fewer findings and a reduction in the severity of those findings compared to the previous audit. The teams reached 98% closure on the 2016 IOAIA findings, with all serious findings closed out;
- Completed external audits of the HSE Management System with no significant findings;
- Continued the internal audit programme throughout the year while managing zero overdue safety-critical actions;
- Second contractor HSE event completed with increased attendance indicating increased commitment and collaboration;
- Continued implementation of quarterly HSE reviews with key contractors; and
- Completed oil spill response training for all offshore crews.

We also completed comprehensive UK and Malaysian HSE&A audit programmes, with outcomes fed into our 2019 Continual Improvement Programme. This underlines our focus upon improvement through the early detection and resolution of issues.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

People

Rewarding work environment

We recognise our people are critical to our success and are committed to ensuring that EnQuest is a great place to work. In 2018, we worked with our teams to develop a refreshed set of Values. This was an integrated and collaborative approach, with contributions from teams across the Group, to ensure we captured the essence of what makes EnQuest great. Our Values are outlined on page 9 and are being incorporated into a number of our processes, such as those in Human Resources and Health, Safety, Environment and Assurance. We remain committed to ensuring that staff can optimise their performance through a combination of cascaded objectives at the beginning of the year that align to our wider Group goals, followed by regular line management feedback and conversations to measure progress towards these goals. We also developed a process to identify the Group's high performing individuals and provide them with relevant exposure to senior management and members of the Board.

In line with our aim of providing a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy, we undertook a review of our UK offshore organisation to ensure that we have the right structures in place. This process, which was undertaken in consultation with the EnQuest workforce and relevant trade unions, involved assessing the optimal crew size and skill dispersion across our assets and the benefits of insourcing operations and maintenance services on assets for which EnQuest is duty holder. In addition, following feedback from our teams and cognisant of the wider industry, changes that standardised our offshore rota patterns for all EnQuest offshore operations and maintenance core positions were proposed. We believe these changes combined facilitate a better work-life balance and make competency development and personnel movements easier to manage.

In our Malaysian offshore organisation, ensuring that we have appropriate competency levels remained a priority and led to job levels being redefined, creating growth and learning opportunities for our employees. Significant efforts were also undertaken with regard to succession planning and long-term employee retention, in conjunction with our efforts to enhance our workforce compliance further under the Production Sharing Contract agreement with PETRONAS. The process for identifying high-potential Malaysian talent and supporting their development through targeted training and work placements is under way. EnQuest was an active sponsor of the PETRONAS training programme for graduates (PRODIGY) and has subsequently hired all trainees who were sponsored. We were also successful in recruiting or promoting qualified Malaysian nationals into leadership roles within our finance, subsurface and engineering teams, replacing expatriates in some of these roles.

Engagement

As part of the Group's employee engagement programme, we have continued to run our business briefings and town halls. In line with the updated UK Corporate Governance Code published in July 2018, the Board approved the establishment of an Employee Forum to improve engagement and interaction between the workforce and the Board. While the Code is UK specific, EnQuest sees the value in having a global forum for its employees, with up to 12 employee representatives drawn from across our geographies meeting on a quarterly basis. The Forum Chair will be rotated amongst senior leaders and will report to the Board through two designated Non-Executive Directors. The Board has nominated Laurie Fitch and Phil Holland to share the designated Non-Executive Directors accountabilities between them, which will include attending at least two of the Forum meetings each year.

Gender pay

EnQuest published its second Gender Pay Report in compliance with the UK's gender pay legislation. Both the average and median gender pay gap difference between men and women in the Company improved materially. As expected, however, the transfer of staff from BP at the end of 2017 increased the percentage of men in our UK workforce from 77% to 86%. As outlined above, with the offshore restructuring under way, it is likely that the proportion of males in the organisation will increase further.

The gender pay gap is not the same as equal pay which refers to whether a man and a woman are receiving equal pay for doing equal work and it is important to clarify this point. The gender pay gap is there to compare the average pay of all women compared to the average pay of all men in the same organisation – regardless of role, seniority, experience or contracted working hours. Our gender pay gap results are influenced by factors such as societal norms, more males than females working in the oil and gas sector (particularly offshore) and individual choices in terms of self-selected flexible working practices such as part-time working. Having a gender pay gap does not mean that the pay practices at EnQuest are unequal.

"WE ARE COMMITTED TO CONDUCTING OURSELVES ETHICALLY, WITH INTEGRITY AND TO COMPLYING WITH ALL APPLICABLE LEGAL REQUIREMENTS."

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

- The month of April 2018, for the purposes of calculating salary earned; and
- The year April 2017 – March 2018 for the purposes of calculating bonus paid.

The results show that the average rate of total pay for women is 29.5% below the average rate of total pay for men, a significant improvement when compared to the 38.7% reported previously, although the average bonus gap for women widened to 53.9% (from 44.9%) below the average bonus paid for men. On the comparison of median total pay and bonus, the percentage difference is 22.9% on pay, again a substantial improvement on the 31.6% reported previously, and 33.9% on bonus, an increase from 23.1% previously. During the period April 2017 – March 2018, almost an equal percentage of women and men received a bonus (84% of women and 85% of men).

The Company conducts regular benchmarking exercises to ensure that our salaries are comparable, regardless of gender, and that our recruitment process is fair and balanced. However, we recognise that we need to work at addressing our gender pay gap over the coming years. Whilst we recognise that any improvements of this imbalance cannot be resolved immediately, we are committed to narrowing the gender pay gap in EnQuest over time.

Our people and organisational strategy is to ensure that we have the right people in the right roles driving performance and delivering efficiencies as we continue to pursue our strategy for growth. We recognise that we operate in an industry where the talent pool and labour market is predominantly male, and so we ensure our processes are open and transparent, providing equal opportunity for applicants. EnQuest recognises the value of diversity in its workforce and is committed to diversity, including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams and will continue to be so, recruiting individuals on merit and their suitability for the role and cognisant of the skills and experience of the rest of the executive and senior management.

Diversity and Inclusion

In 2018 and early 2019, our Diversity and Inclusion Policy was revised to incorporate our new Values in a clear policy statement, with the formal launch during 2019. We encourage a culture of respect and openness which values the diversity of all our people. We also expect to see collaborative and inclusive teamwork where we combine our collective capabilities to deliver Safe Results. We wish to create an environment where all individuals, teams and the Company as a whole can learn, develop and adapt. It is for everyone to ensure that their actions and engagement in daily interactions with colleagues and stakeholders demonstrate respect for one another, encourage inclusion and diversity, recognising the contributions that each individual makes to the workplace.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

Recipients and trustees of the Sullom Voe Terminal Participants' Tenth Anniversary Education Trust

EnQuest volunteers with children and caretakers of Good Samaritan Home and their Christmas presents

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

Community

Supporting the communities in which we operate and live continues to be an important element of working at EnQuest, and we remain committed to developing strong relationships with partner organisations in the North Sea and Malaysia.

EnQuest is an active member of Oil Spill Response Limited, which was established to respond to oil spills, wherever they may occur in the world, through the provision of preparedness, response and intervention services. It is the largest international cooperative funded by industry. In Malaysia, the Group is also a member of the Petroleum Industry of Malaysia Mutual Aid Group, which provides oil spill response and associated training for its members.

North Sea

Our North Sea team supports a wide range of charities throughout the UK. Our offshore teams link their fundraising efforts to the delivery of strong safety and environmental performance. In 2018, we raised more than £74,000, with our offshore teams nominating the charities that will benefit from their efforts. Nominated charities included CLAN Cancer Support, Great North Air Ambulance Service, Highland Hospice, The Brain Tumour Charity, Lamont Farm Project, and Zoe's Place Trust.

We held a number of fundraising activities that continued to help us support Archway, an Aberdeen-based charity which supports young people and adults with learning disabilities. This programme of support will continue in 2019, alongside CLAN Cancer Support, which was nominated by our teams as our second charity to support through 2019 and beyond. CLAN is a well-established local charity providing emotional and practical support to people affected by cancer and their families, carers and friends.

As operator of the SVT, supporting local charities and fundraising events is an important element of our community engagement. Once again, the Trustees of the SVT Participants' Tenth Anniversary Education Trust made awards to local young people. The fund was established to promote and encourage the education of Shetland residents who will be studying a discipline likely to contribute to the social and/or economic development of Shetland. Ten educational awards were made for the academic year 2018/2019; five of these were recipients of scholarships the previous year. Funds were also raised for a broad range of community groups, including: Shetland Youth Volunteering Awards; Anderson High School local opportunities event; Shetland Community Bike Project; RNLI Lerwick and Aberdeen; Royal Voluntary Service; Cancer Research; and Shetland Bereavement Support Services.

We are also committed to the continuing protection of the outstanding environment around the terminal through our support of the Shetland Oil Terminal Environmental Advisory Group ('SOTEAG'). For 40 years, SOTEAG has helped to ensure that Sullom Voe's special geographical and biological features remain unspoiled through high-quality marine environmental monitoring and management.

Malaysia

In 2018, EnQuest improved the gender diversity of the Malaysia Leadership Team with the recruitment of two female members in Finance and Engineering. We also engaged five female and seven male local university students for internship placements in a variety of disciplines within EnQuest, such as operations, subsurface, HSE and supply chain management, supporting them in gaining practical experience in their chosen study area. To encourage young people to participate in higher education, particularly in the disciplines of Science, Technology, Engineering and Mathematics ('STEM'), a scholarship programme has been established and will support two undergraduate students in the fields of geoscience and engineering at Universiti Malaya and Universiti Teknologi Malaysia.

We continue to offer practical support to the Good Samaritan House with donations for the home, which in 2018 included kitchen equipment and a water dispenser. A home safety inspection was conducted by our HSE team to identify and minimise any safety hazards, which helps ensure a safer living environment for the children and caretakers of the home. Our team also helped 35 underprivileged and orphaned children through a 'Wishing Tree' gift-giving event, based on their wishes for Christmas and New Year. The children joined an end-of-year party with staff, which included career and safety talks as well as a choir performance by the children.

Business conduct

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

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

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

As part of the Group's Risk Management Framework, the Board is supplied annually with an 'assurance map' that provides an insight into the status of the main sources of controls and assurance in respect of the Group's key risk areas (see pages 36 to 43 for further information on how the Group manages its key risk areas). Whilst this provides some formal assurance as to how the Group reinforces its requirements in respect of business conduct, the Board also recognises the importance of promoting the right culture within the Group and this remains an area of focus for the Group.

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

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

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

ENQUEST VALUES

GROWTH AND LEARNING

"EnQuest has been dynamic and flexible with my role, encouraging me to achieve my career goals."

Rebecca Young
Senior Legal Advisor, UK

RISKS AND UNCERTAINTIES

Management of risks and uncertainties

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

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

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

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

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

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus. The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of the business. The Group Risk Register, along with an assurance mapping and controls review exercise and a risk report (focused on identifying and mitigating the most critical and emerging risks through a systematic analysis of the Company's business, its industry and the global risk environment), is periodically reviewed by the Board (with senior management), to ensure that key issues are being adequately identified and actively managed. In addition, the Group's Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth (for further information, please see the Risk Committee Report on page 79).

As part of its strategic, business planning and risk processes, the Group considers how a number of macro-economic themes may influence its principal risks. These are factors which influence long-term supply and demand trends and/or about which the Company should be cognisant in developing its strategy. They include, for example, developments in technology, demographics, climate change and how markets and the regulatory environment may respond, and the decommissioning of infrastructure in the UK North Sea and other mature basins. These themes are relevant to the Group's assessments across a number of its principal risks. The Group will continue to monitor these themes and the relevant developing policy environment at an international and national level and will adapt its strategy accordingly. For example, EnQuest remains conscious of the potential for a number of aspects of climate change to amplify certain principal risks over time (e.g. in relation to access to capital markets – see 'Financial' risk on page 40 – and oil price – see 'Oil and gas prices' risk on page 39). The Group is also conscious that as an operator of mature producing assets with limited appetite for exploration, it has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets.

As part of its evolution of the Group's Risk Management Framework, the Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 18 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below).

The Board, supported by the Audit and Risk Committees, has reviewed the Group's system of risk management and internal control for the period from 1 January 2018 to the date of this report and carried out a robust assessment of the Company's emerging and principal risks, the procedures in place to identify and mitigate principal and emerging risks and confirms that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Key business risks

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

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

Set out on the following pages are:
- The principal risks and mitigations;
- An estimate of the potential impact and likelihood of occurrence after the mitigation actions, along with how these have changed in the past year; and
- An articulation of the Group's risk appetite for each of these principal risks.

Amongst these, the key risks the Group currently faces are a sustained decline in oil prices (see 'Oil and gas prices' risk on page 39), a lack of growth opportunities (see 'Production' risk on page 38 and 'Subsurface risk and reserves replacement' on page 42) and materially lower than expected production performance for a prolonged period, particularly at the Kraken field (see 'Production' risk on page 38).

RISK

HEALTH, SAFETY & ENVIRONMENT ('HSE')

Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including Major Accident Hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental harm, including those associated with the impacts of climate change.

Potential impact – Medium (2017 Medium)
Likelihood – Low (2017 Low)

There has been no material change in the potential impact or likelihood and the Group's overall record on HSE remains robust.

Related KPIs – A, B, C, D, E, F, G

APPETITE

The Group's principal aim is Safe Results with no harm to people and respect for the environment. Should operational results and safety ever come into conflict, employees have a responsibility to choose safety over operational results. Employees are empowered to stop operations for safety-related reasons.

The Group's desire is to maintain upper quartile HSE performance measured against suitable industry metrics.

MITIGATION

The Group maintains, in conjunction with its core contractors, a comprehensive programme of HSE, asset integrity and assurance activities and has implemented a continual improvement programme, promoting a culture of transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk has been enhanced through further emphasising the role of HSE oversight within the Risk Committee's terms of reference. During 2018, the Group continued to focus on control of Major Accident Hazards and 'Safe Behaviours'.

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

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

RISK

REPUTATION

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

Potential impact – High (2017 High)
Likelihood – Low (2017 Low)

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

Related KPIs – A, C, D, E, G, H

APPETITE

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

MITIGATION

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

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

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

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

All personnel are authorised to shut down production for safety-related reasons.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Boe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

RISKS AND UNCERTAINTIES CONTINUED

RISK

PRODUCTION

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

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

Climate change could result in more severe weather conditions over time, which could impact asset uptime.

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

Longer-term production is threatened if low oil prices bring forward decommissioning timelines.

Potential impact – High (2017 High)
Likelihood – Low (2017 Low)

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

The Group has delivered on its 2018 production target despite a lower performance at Kraken than originally expected. With the additional interest in the Magnus asset, EnQuest's production portfolio has been further diversified, with material growth expected as a result in 2019. However, the increased interest in Magnus also increased the Group's reliance on the Sullom Voe Terminal. Further, the Dunlin bypass export project, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System and will therefore further increase reliance on the Sullom Voe Terminal.

Related KPIs – B, C, D, E, G, H

APPETITE

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

MITIGATION

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

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

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

The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored and challenged by the Group and other terminal owners and users to ensure that operational integrity is maintained. Further, EnQuest expects to be well positioned to manage potential operational risks related to the Sullom Voe Terminal having assumed operatorship of the terminal and with the workforce having transferred with the asset in 2017. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide both risk mitigation and cost savings.

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

RISK

OIL AND GAS PRICES

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

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood.
The Group recognises that climate change concerns and related regulatory developments are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply.

Related KPIs – B, D, E, F, G, H

APPETITE

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

MITIGATION

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

The Group monitors oil price sensitivity relative to its capital commitments and has a policy (see page 129) which allows hedging of its production. As at 19 March 2019, the Group had hedged approximately 8 MMbbls. This ensures that the Group will receive a minimum oil price for its production.

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

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

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

RISK

HUMAN RESOURCES

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

Potential impact – Medium (2017 Low)
Likelihood – High (2017 Medium)

The impact and likelihood have increased given the increased competition in the sector, particularly in the UK.

Related KPIs – A, B, C, D, E, F, G

APPETITE

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

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

MITIGATION

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

We recognise that our people are critical to our success and so are continually evolving our end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that we have the right person for the job and that we provide appropriate training, support and development opportunities with feedback to drive continuous improvement whilst delivering Safe Results. The culture of the Group is an area of ongoing focus and a 'Values refresh' took place during 2018.

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

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

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

EnQuest is introducing a Group Employee Forum during 2019 to add to our employee communication and engagement strategy. This forum will improve engagement and interaction between the workforce and the Board.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Boe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

RISKS AND UNCERTAINTIES CONTINUED

RISK

FINANCIAL

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

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

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood; however, there is potential for the cost of capital to increase as factors such as climate change concerns and oil price volatility may reduce investors' acceptable levels of oil and gas sector exposure and the cost of emissions trading certificates, or their replacement in the event the UK exits the European Union, may trend higher. In addition, adhering to the term loan amortisation schedule remains partially dependent on the successful increase in the Group's aggregate production being materially in line with expectations and no significant reduction in oil prices. Further information is contained in the going concern and viability paragraphs on page 26 of the Financial Review.

Related KPIs – B, C, F, G, H

APPETITE

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

MITIGATION

Debt reduction is a strategic priority. During the year, the Group completed a $175 million credit facility from Oz Management and raised c.$129 million (net) through a rights issue, of which $100 million was used to fund the Group's cash consideration for the acquisition of additional interests in assets from BP. The Group also paid and/or cancelled a total of $340 million of the term facility.

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

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

Funding from the bonds and revolving credit facility is supplemented by operating cash inflow from the Group's producing assets. The Group reviews its cash flow requirements on an ongoing basis to ensure it has adequate resources for its needs.

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

RISK

FISCAL RISK AND GOVERNMENT TAKE

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

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

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

Related KPIs – E, G

APPETITE

The Group faces an uncertain macro-economic and regulatory environment. Due to the nature of such risks and their relative unpredictability, it must be tolerant of certain inherent exposure.

MITIGATION

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

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

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

RISK

PROJECT EXECUTION AND DELIVERY

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

Potential impact – Medium (2017 High)
Likelihood – Low (2017 Low)

The potential impact has reduced, with the likelihood remaining unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects. The main project developments in 2019 are oil export pipeline projects for Thistle/Deveron (the Dunlin bypass project) and Scolty/Crathes (the pipeline replacement project).

Related KPIs – B, D, E, F, G, H

APPETITE

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

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

MITIGATION

The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place to ensure that deadlines are met, costs are controlled and that design concepts and the Field Development Plan are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication. The Group also engages third-party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. EnQuest ensures that responsibility for delivering time-critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations. EnQuest also supports its partners and suppliers through the provision of appropriate secondees if required.

RISK

PORTFOLIO CONCENTRATION

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

Potential impact – High (2017 High)
Likelihood – High (2017 Medium)

The acquisition of an additional interest in the Magnus oil field has elevated this risk in the long term (by further concentrating the Group's portfolio in the UK North Sea). Further, the Dunlin bypass export project, once completed, will see volumes from Thistle and the Dons exported via the Magnus facility and Ninian Pipeline System to the Sullom Voe Terminal.

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

Related KPIs – B, C, D, E

APPETITE

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

MITIGATION

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

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

Production at the Greater Kittiwake Area, Alma/Galia and Kraken reduced the Group's prior concentration to the Brent Pipeline System ('BPS') and the Sullom Voe Terminal. However, the acquisition of an additional interest in the Magnus field in December 2018 resulted in further concentration in Sullom Voe Terminal, with concentration increasing again following completion of the Dunlin bypass export project in 2019. Although the Group has concentration risk at Sullom Voe Terminal, taking operatorship of the terminal has put the Group in a position of more direct control of such risk.

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RISKS AND UNCERTAINTIES CONTINUED

RISK

JOINT VENTURE PARTNERS

Failure by joint venture parties to fund their obligations.

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

Potential impact – Medium (2017 Medium)
Likelihood – Medium (2017 Medium)

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

Related KPIs – C, D, E, F, G

APPETITE

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

MITIGATION

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

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

RISK

SUBSURFACE RISK AND RESERVES REPLACEMENT

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

Potential impact – High (2017 High)
Likelihood – Medium (2017 Medium)

There has been no material change in the potential impact or likelihood as oil price volatility, a focus on strengthening the balance sheet and increased competition to acquire assets continues to limit business development activity to the pursuit of reserves enhancing, selective, cash-accretive opportunities.

Low oil prices can potentially affect development of contingent and prospective resources and/or reserves certifications.

Related KPIs – B, C, D, E, F, G, H

APPETITE

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

MITIGATION

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

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

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

RISK

COMPETITION

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

Potential impact – High (2017 Medium)
Likelihood – High (2017 Medium)

The potential impact and likelihood has increased due to an increase in the number of available oil and gas assets and competitors looking to acquire them.

Related KPIs – C, D, E, F, H

APPETITE

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

MITIGATION

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

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

RISK

INTERNATIONAL BUSINESS

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

Potential impact – Medium (2017 Medium)
Likelihood – Medium (2017 Medium)

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

Related KPIs – A, D, E, F, G, H

APPETITE

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

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

MITIGATION

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

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

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

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

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

RISK

IT SECURITY AND RESILIENCE

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

Potential impact – Medium (2017 Medium)
Likelihood – Low (2017 Low)

Related KPIs – A, B

APPETITE

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

MITIGATION

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

The Risk Committee undertook additional analyses of cyber-security risks in 2018. Recognising that it is one of the Group's key focus areas, the Group now employs a cyber-security manager. Work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2019.

Stefan Ricketts
Company Secretary

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 20 March 2019.