Welcome to the EnQuest PLC Annual Report and Accounts 2012

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Use the document controls located at the bottom of each page to navigate through this report. Use the contents to jump straight to the section you require.

Search the entire document by keyword

Print a single page or whole sections

Return back to the contents at the beginning of the document

Next Page

Previous Page

Links

Throughout this report there are links to pages, other sections and web addresses for additional information. The web links are recognisable by the light blue underline simply click to go to web URL www.enquest.com

Contents

Annual Report and Accounts 2012

An independent oil and gas development and production company

DELIVERING GROWTH

OUR COMPANY OUR PEOPLE

–WHAT WE DO

We are an oil and gas development and production company focused on turning opportunities into value by targeting maturing assets and undeveloped oil fields.

Delivering value
EnQuest's development and production focused strategy is working, we are building momentum and the successful implementation of our strategy is proving that our model is repeatable. We are excited by our potential to keep growing and to keep delivering value.

EnQuest's people
EnQuest is its people. We are differentiated by the breadth and depth of our teams, by their knowledge and experience in engineering, subsurface, execution and operations and by their leadership in innovative integrated developments.

See how the values of the EnQuest team are implemented throughout the business on pages 40–41

CONTENTS

Cover image:
Alma/Galia development project team members at the EnQuest Producer vessel in dry dock in Hamburg, where it is undergoing major modifications and life extension work.

–HIGHLIGHTS FOR 2012

Basic earnings per share
Cents

2012	46.2
2011	7.6

↑ 507.9%

Net profit after tax[2]
$ million

2012	259.7
2011	136.1

↑ 90.8%

Production
Boepd

2012	22,802
2011	23,698

↓ 3.8%

Reserves
MMboe

2012	128.51
2011	115.2

↑ 11.5%

1 EBITDA is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion (adjusted for depletion of fair value uplift), depreciation, impairment and write-off of intangible oil and gas assets.
2 Before exceptional items and depletion of fair value uplift.

Delivering growth

2012

- Strong $593.9 million cash flow from operations and $626.2 million EBITDA[1], pre-exceptional and fair value adjustments
- EnQuest performed well in 2012. Despite an expected decline in production at the Dons, the strength of production at Thistle in particular resulted in strong production of 22,802 Boepd
- The 2012 14 well drilling programme was well executed, with a particularly strong operational performance at the Thistle and Don fields
- An 11.5% growth in net 2P reserves and a reserves replacement ratio of 262.2%
- EnQuest started to establish a presence in two oil basins outside the UK North sea: Norway and Malaysia

2013 and beyond

- Targeting net average 2013 production of between 22,000 Boepd and 27,000 Boepd
  - Driven by a programme delivering 12 wells, including six production wells
- First oil from EnQuest's new Alma/Galia hub is on track for Q4 2013
- The new development of the Kraken discovery is on track for Field Development Plan ('FDP') submission in Q2 2013
- Net 2P reserves at the start of 2013 have a life of over 15 years, extending to over 25 years if Kraken's contingent resources are converted to reserves
- EnQuest is actively considering developments on at least a further three licences in its discovery 'hopper'
- With its differentiated strong development execution capability, EnQuest is well placed to continue to capture and realise new development opportunities, assuring our medium and long term growth

How does your team make a difference?

While many companies take a sequential approach to project execution, we often progress projects in parallel – and can do so because of our nimbleness and speed of reaction.

One of the distinctive features of EnQuest is that we don't have to work through many layers of the business to reach decision makers. Things can be made to happen quickly and efficiently.

From a career perspective, our prospective growth means team members can remain in a post or working discipline they enjoy, but nevertheless develop their responsibilities and capabilities as the business grows.

Name: Derek Liversidge (centre)
EnQuest position:
Wells Delivery Manager

SEE MORE ABOUT OUR EXTENSIVE DRILLING ACTIVITY ON P8–13

–WHAT WE HAVE ACHIEVED IN 3 YEARS

By the end of 2012...

14 WELLS SUCCESSFULLY DRILLED

The successes of a 14 well programme in 2012 and the delivery of the Thistle and Dons work programmes enabled us to achieve our production targets for the year.

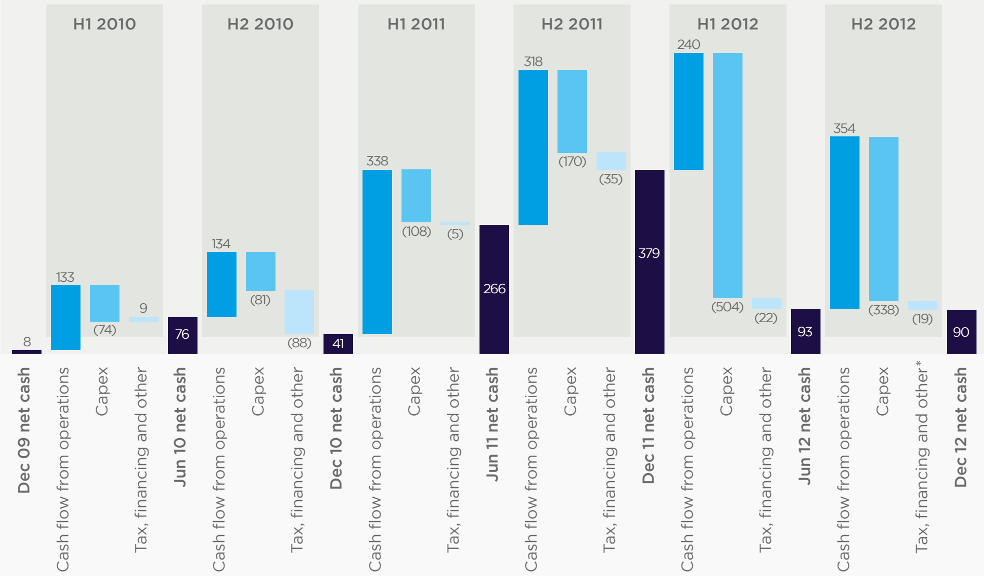
NORWAY AND MALAYSIA

In 2012 we announced our first steps outside of the UK North Sea, preparatory moves to replicate our existing model by targeting previously undeveloped assets in a small number of other maturing regions; complementing our operations and utilising our deep skills in the UK North Sea.

39 UK PRODUCTION LICENCES

2010–2012: Significant cash flow from operations, over $1.5 billion of cash flow generated

US$ million



* Excludes borrowing.

2010

Launch of EnQuest

- First drilling on the Thistle platform for 20 years
- Increased production by 55% in first year

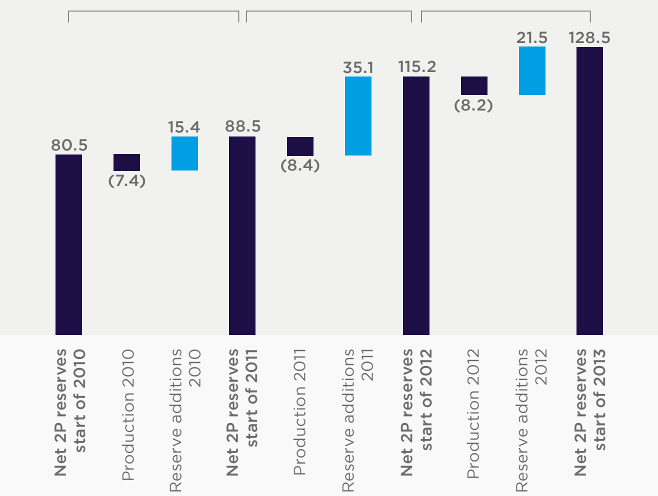
- 26th Licensing Round success
- Acquisition of Stratic Energy Corporation

2011

- Field Development Plan (FDP) submission and Board sanction of Alma/Galia
- Acquired a further 8% of the Broom producing oil field
- Thistle reached a production milestone of 2 MMbbls in one calendar year for the first time since 2000
- Don Southwest reached a milestone of 10 MMbbls of cumulative production, just two years after coming onstream
- Discovery of both Conrie and Crathes fields

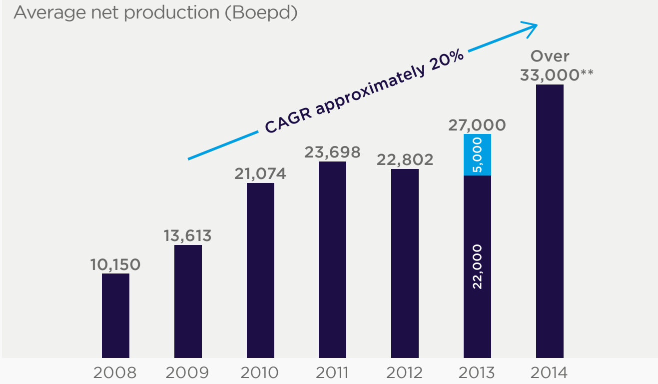
2010–2012: 300% reserves replacement

MMboe



On track to deliver approximately 20% CAGR* Between 2009 and 2014

Average net production (Boepd)



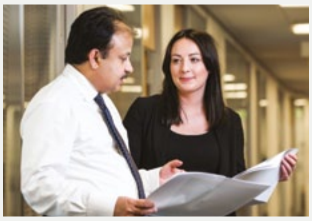
* Compound annual growth rate
** To be updated following Alma/Galia results

Guidance range

2012

- Acquisition of 60% of the Kraken discovery, assumption of operatorship
- DECC FDP approval for Alma/Galia
- Acquired a further 18.5% of the West Don producing oil field
- 27th Licensing Round success
- Heather return to drilling project under way
- Five years free of Lost Time Incidents (LTIs) on drilling operations in the Thistle field
- Announced first steps outside of the UK North Sea

2013



- Agreed acquisition of 8% of the Alba producing oil field
- Successful issue of £145m retail bonds. The bonds were admitted to trading through the Order Book for Retail Bonds of the London Stock Exchange

–OUR STRATEGY

EnQuest intends to deliver sustainable growth by focusing on exploiting its existing reserves, commercialising and developing discoveries, converting contingent resources into reserves and pursuing selective acquisitions.

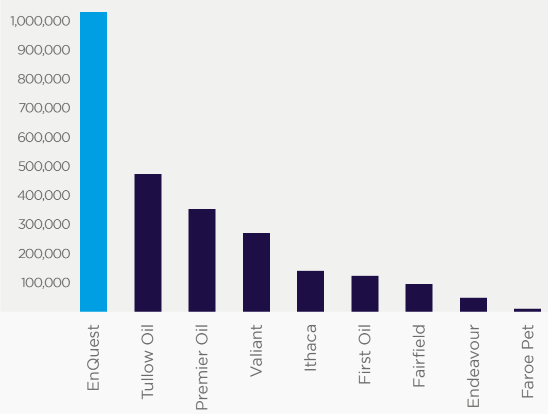
- **Focused on oil and oil linked hydrocarbons**
- **Control through operatorship and high working interests**
- **Turning development and production opportunities into value by targeting maturing assets and undeveloped oil fields**
- **Being a development partner of choice**

Long term average growth aims at time of our IPO:

10% GROWTH

IN PRODUCTION AND RESERVES PER ANNUM

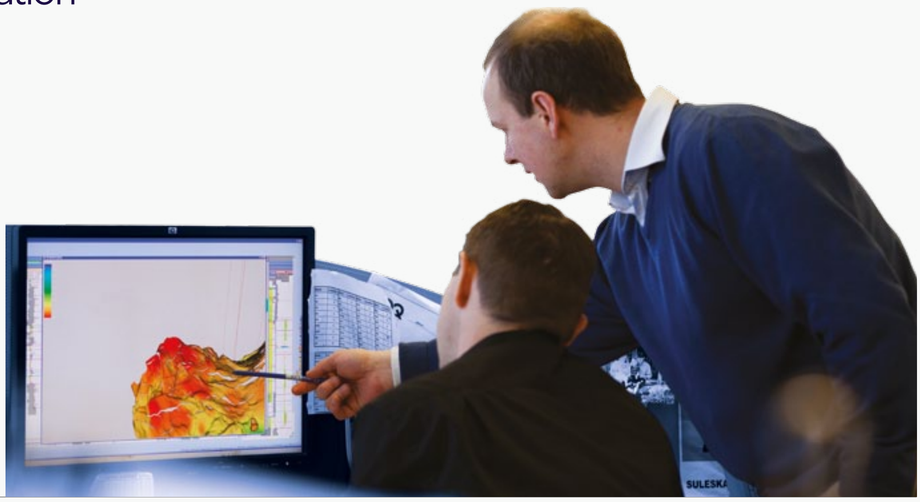
Largest UK Independent Producer in the UK North Sea
Total production for the year ending November 2012
Total production in mass units: tonnes



Source: Department of Energy and Climate Change website

–OUR HUB FOCUSED MODEL

Growth through the realisation of untapped potential.



How EnQuest adds value		The assets
–FIELD LIFE EXTENSIONS	Upgrading existing facilities	Heather/Broom
	Newer technology, new seismic	Thistle/Deveron
	Simplifying processes	Maturing fields
	Infill drilling, subsurface skill in identifying well targets	Ex majors
–MARGINAL FIELD SOLUTIONS	Agile, innovative and cost efficient solutions	Dons and Alma/Galia
	Redesigning and upgrading 'used' facilities	Dormant fields
	Using existing infrastructure; tie-backs	Ex majors and licensing rounds
–NEW DEVELOPMENTS	Deploying technical and financial capacity too stretching for some previous owners	Kraken
	Integrated teams commercialising and developing discoveries	Ex smaller companies
	Low risk, low cost near field development and appraisal	

SEE OUR FIELD LIFE EXTENSIONS CASE STUDY ON P8–9

SEE OUR MARGINAL FIELD SOLUTIONS CASE STUDY ON P10–11

SEE OUR NEW DEVELOPMENTS CASE STUDY ON P12–13

–OUR ASSETS

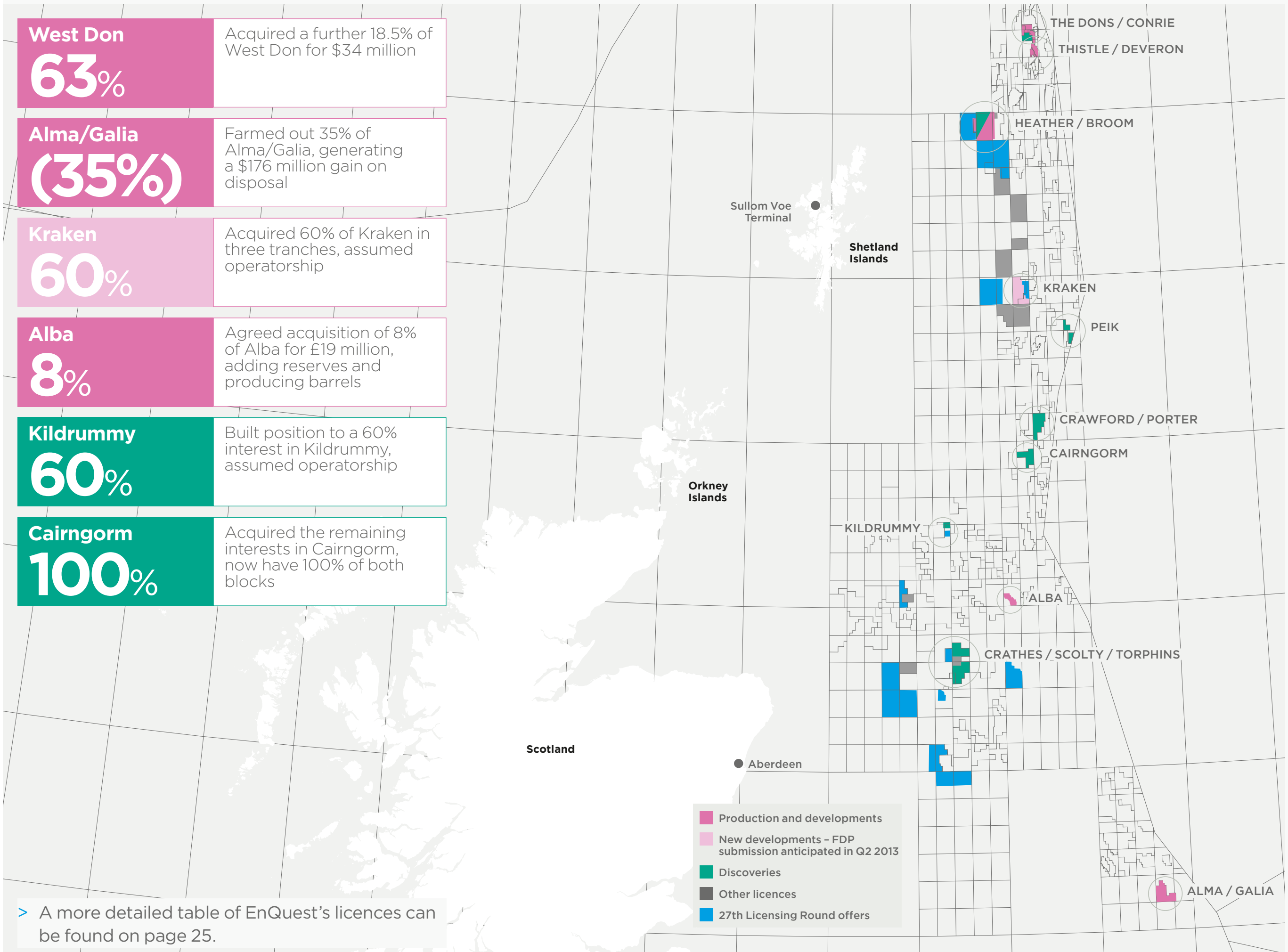
Growing EnQuest's asset base

EnQuest's principal assets at the end of 2012 were its interests in the Heather/Broom, Thistle/Deveron, West Don, Don Southwest and Conrie producing oil fields, the Alma and Galia development, the new Kraken development, and further development opportunities in the Southwest Heather, Peik, Crawford/Porter, Cairngorm, Crathes/Scolty/Torphins and Kildrummy discoveries. Further afield EnQuest also has a development opportunity in the Bambazon oil discovery in Malaysia.

In the UK at the end of December 2012, including the assets it was offered in the UK's 27th Licensing Round, EnQuest had working interests in 39 production licences covering 55 blocks or part blocks in the UKCS and was the operator of 31 of its 39 licences.

During 2012 and in 2013 to date, EnQuest consolidated positions in its existing asset base and added material new interests. This was achieved primarily through asset acquisitions and through licensing rounds. EnQuest also significantly enhanced its economics on the Alma/Galia development through a farm out.

West Don 63%	Acquired a further 18.5% of West Don for $34 million
Alma/Galia (35%)	Farmed out 35% of Alma/Galia, generating a $176 million gain on disposal
Kraken 60%	Acquired 60% of Kraken in three tranches, assumed operatorship
Alba 8%	Agreed acquisition of 8% of Alba for £19 million, adding reserves and producing barrels
Kildrummy 60%	Built position to a 60% interest in Kildrummy, assumed operatorship
Cairngorm 100%	Acquired the remaining interests in Cairngorm, now have 100% of both blocks

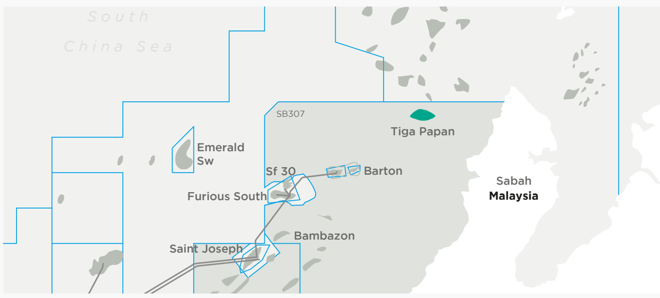


> A more detailed table of EnQuest's licences can be found on page 25.

Assets outside the UK North Sea

EnQuest has acquired an appraisal opportunity at the Bambazon discovery and other exploration targets in a maturing oil basin in Malaysia, as part of the execution of its long term growth strategy.

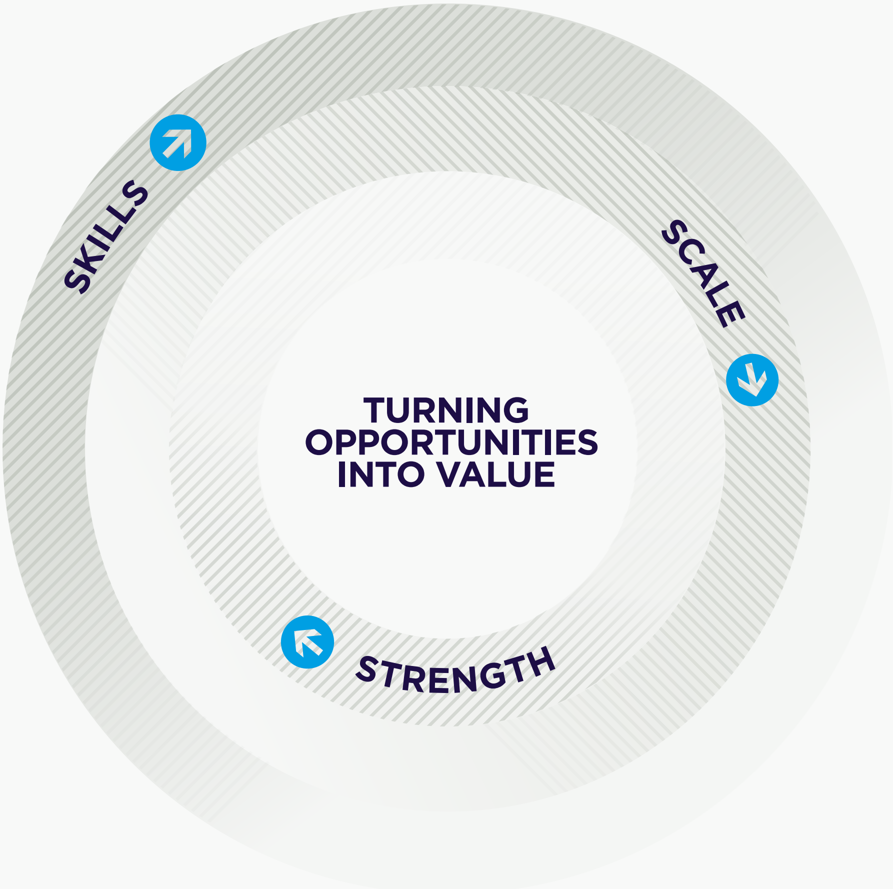
Sabah	Acquired 42.5% interest in Blocks SB307 and SB308, offshore Sabah in Malaysia, for an initial $3 million

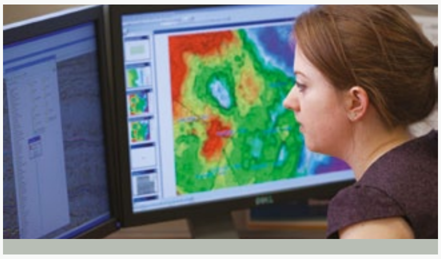


–OUR DIFFERENTIATORS THE ENQUEST WAY

Focused on execution

- Leadership in innovative developments
- Integrated teams
- Proven depth in engineering, subsurface, execution and operations
- Innovative and cost efficient development solutions
- Proven acquirer of assets

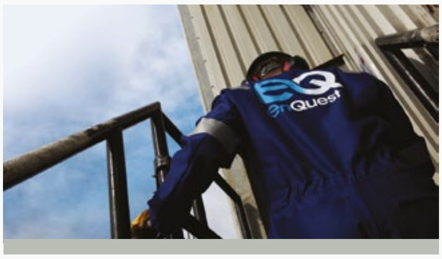




Technical skills
The Alma/Galia development exemplifies how EnQuest is now a leading force in integrated development.

The new Kraken development opportunity demonstrates EnQuest's skills as a proven acquirer of assets.

Operating scale
With a direct workforce of around 500, and 1,600 including offshore contractors, EnQuest has a breadth and depth of expertise matched by few if any UK oil companies of its size.



Financial strength
With a strong balance sheet and strong cash flow generation, combined with its technical skills and operational scale, EnQuest is increasingly becoming the independent development partner of choice in the UK North Sea.

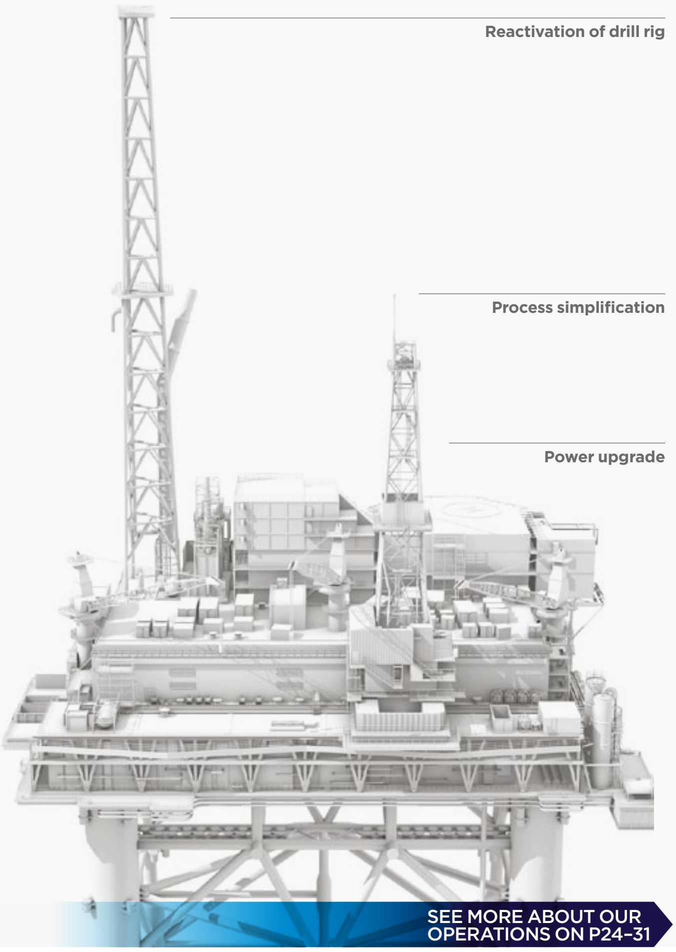
–FIELD LIFE EXTENSIONS

THISTLE LIFE EXTENSION (LLX)

Thistle is a prime example of how we are able to recover more oil from mature assets through a combination of innovative ways of working and technical expertise. It demonstrates what EnQuest does best and underlines our long term commitment to the North Sea.

Barrels of oil

3 million barrels of oil produced in 2012



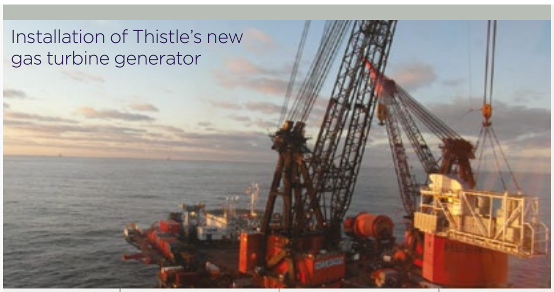
SEE MORE ABOUT OUR OPERATIONS ON P24–31

EnQuest's commitment to investing in mature infrastructure to realise untapped production potential is exemplified by its Thistle Late Life Extension (LLX) project. This large scale programme extends the field life and realises reserves. Production from Thistle, which was installed in 1976, had been in decline before EnQuest instigated this multi-faceted revitalisation project.

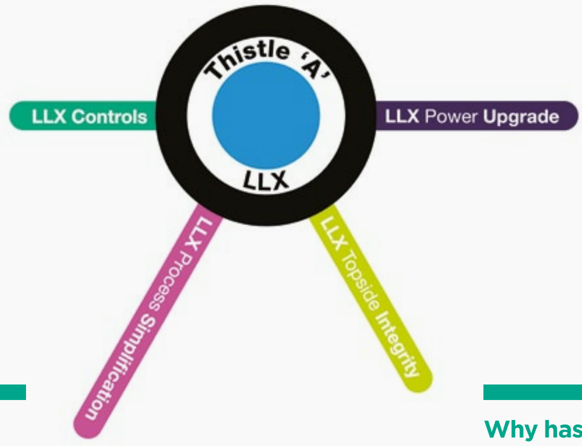
The first phase was a successful rig reactivation project and the subsequent drilling of five new wells, resulting in a rise in production levels not seen since the 1990s. Drilling operations were not only characterised by efficiency and excellent results, but by exceptional safety performance: the team recorded five years free of any lost time incidents (LTIs).

The subsequent stages of Thistle LLX involve a programme of coordinated enhancements to the infrastructure and to key systems. The first major element of this programme saw the successful installation of a new power generation turbine and local equipment room, significantly enhancing power supply in terms of capacity and reliability. The installation and heavy lift required careful planning and was flawlessly executed by a team who demonstrated many EnQuest values, such as agility, collaboration and creativity.

Other elements of the programme include a process simplification exercise to create a fit-for-purpose plant environment, a new process control and safety system, topsides integrity work, and structure focused workscopes to maintain the jacket integrity of the asset. The latter stages of the programme were significantly bolstered in early 2013 when it was announced that EnQuest had secured a brownfield tax allowance in support of its plans to maximise recovery from Thistle. EnQuest is among the first operators to secure the allowance, which is one of a series of UK Government measures aimed at stimulating growth in the North Sea, and enables the business to commit fully to a new phase of investment.


Installation of Thistle's new gas turbine generator

THISTLE LLX
visit the multimedia section of enquest.com for more information on the LLX project.



How will Thistle benefit from the LLX (late life extension) upgrades?

When feasibility studies originally identified that Thistle's field life could be extended by a further 15 years or more, EnQuest was quick to seize on this substantial opportunity to add value and to recognise its potential for other maturing fields.

The Thistle LLX upgrades enhance asset integrity and allow for the further safe extraction of hydrocarbons. This project demonstrates EnQuest's continued belief in the future of the North Sea.

Name: Michele Eaves
EnQuest position:

Why has this project been so successful to date?

From the outset, we sought to engage everyone involved in dialogue about how we could make Thistle better – how we could recover those extra barrels.

We knew the principles: we needed people to share the vision, we needed the processes, and we needed to create a cycle of policy setting and practical improvements to drive change. Once those were established, we knew operational excellence would emerge.

Name: Mark Bayman
EnQuest position:
Thistle Area Manager

–MARGINAL FIELD SOLUTIONS

ALMA/GALIA

Alma/Galia is not only creating a new lease of life for what was the UK North Sea's first producing field, but the project exemplifies the ability of EnQuest's people to formulate strong economic solutions for mature assets.

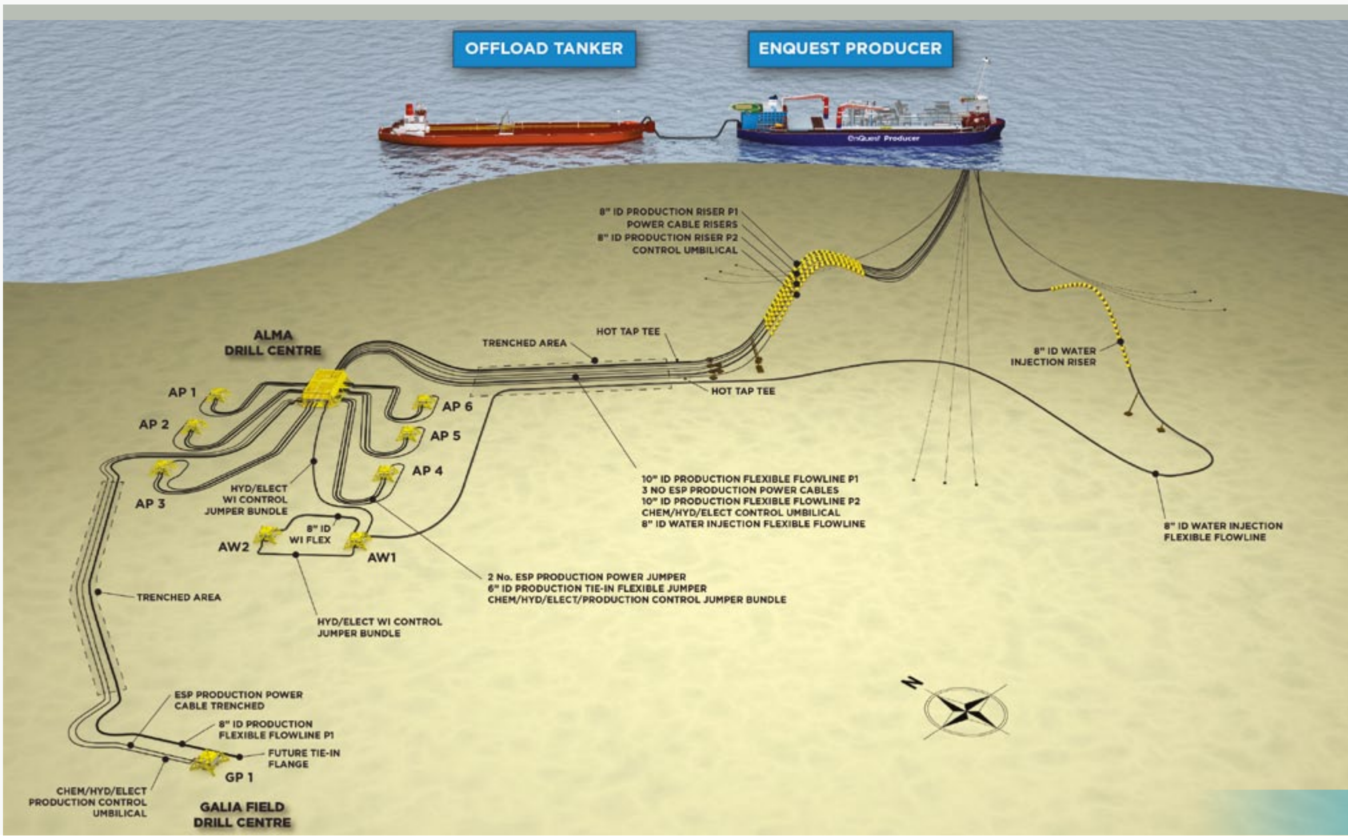
- Blocks 30/24 and 30/25
- 310km southeast of Aberdeen
- Water depth approximately 80m
- Reservoir depth approximately 9,000ft
- Distance from EnQuest Producer to Alma, 2.1km
- Distance from Alma to Galia, 5.4km
- Six Electrical Submersible Pump ('ESP') wells on Alma, dual ESP completion
- One ESP well on Galia, dual ESP completion
- Two water injection wells at the Alma water injection drill centre

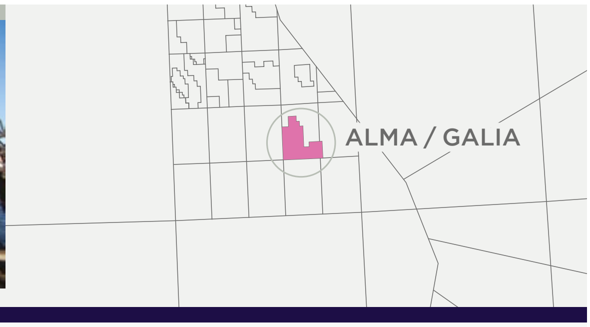
Alma/Galia is EnQuest's first new hub. It reflects our focus on identifying new opportunities in mature assets and creating a technology led solution to maximise recovery. The past year has seen the key elements of the project remain on track and we continue to anticipate first oil in Q4 of 2013. This flagship project is revitalising the UK North Sea's first producing field, formerly known as Argyll.

EnQuest's distinctive project execution model is being deployed for Alma/Galia. This integrated project team approach is designed to achieve optimum efficiency and performance across all areas of the project. The execution team possesses extensive experience as well as in-depth skills across the subsurface and development disciplines.

Towards the end of 2012, significant milestones were reached on the subsea installation elements of Alma/Galia. Specifically, pipeline works authorisations have been approved, subsea trenching operations were completed, and flowlines were laid between the two fields and the EnQuest Producer Floating Production, Storage and Offloading vessel (FPSO) location. The mooring installation contract was awarded and equipment factory accepting testing programmes also commenced.

ALMA/GALIA PROPOSED SUBSEA INFRASTRUCTURE





The infrastructure will feature six producing wells on Alma and one producer on Galia, tied back to the EnQuest Producer which is currently in the port of Hamburg, Germany, undergoing major modification and life extension work. The Hamburg team are leading this modification programme, which includes upgrade work on the swivel, hull strengthening, and the refurbishment of all facilities and systems.

During 2012 the Kuwait Foreign Petroleum Exploration Company (KUFPEC) became a partner in Alma/Galia, acquiring a 35% interest. The farm out agreement brings further technical and financial strength to the project. In early 2013 the EnQuest Board also approved an increase in the scope and specification of the project, with the objective of extending field life, optimising costs and enabling a potential second phase development. These changes are expected to extend the FPSO vessel life materially (to up to 15 years), and to add additional wells in any second development phase.

Gross field 2P reserves

34 MMBoe

Why did you re-use an existing vessel for the Alma/Galia FPSO?

The FPSO element of Alma/Galia demonstrates that EnQuest isn't 'put off' by old assets. While others may have looked at the Uisge Gorm (the name of the vessel before it became the EnQuest Producer) and considered it to be at the end of its useful life, that wasn't the case with us.

Having completed a similar process with the Northern Producer in the Don fields, we understood the scale of what we were getting into, we were prepared to take that on and manage our way through it.

Name: Craig Matthew (right)
EnQuest position:
New Developments Manager

SEE MORE ABOUT OUR
OPERATIONS ON P24–31

–NEW DEVELOPMENTS

THE KRAKEN DISCOVERY

The Kraken project illustrates our ability to identify new opportunities and quickly create an innovative development environment to exploit them with maximum efficiency. With an anticipated production life of 25 years, it is set to become core to our long term production.

EnQuest direct workforce at the end of 2012 approximately

500

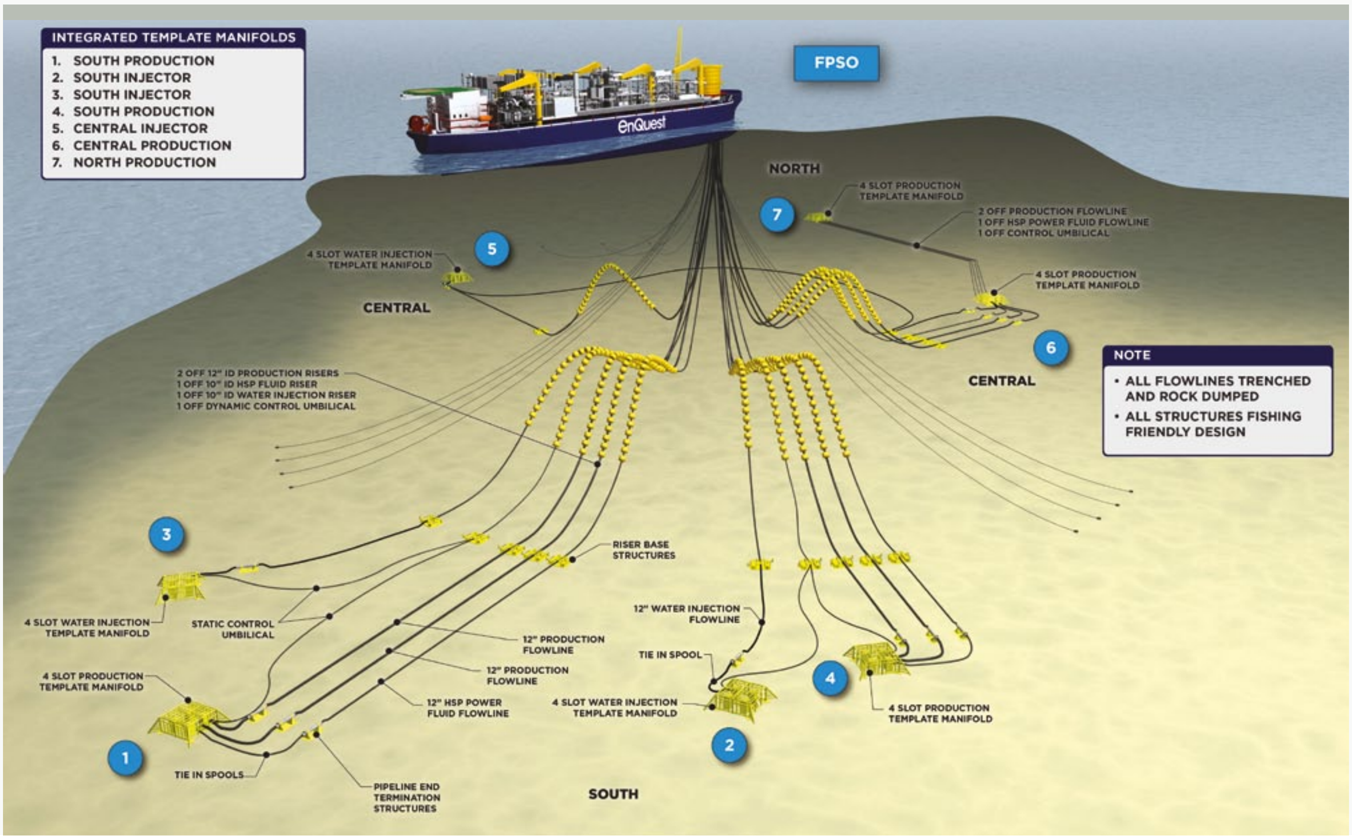
As EnQuest increased its interest in the Kraken discovery during 2012 and assumed operatorship, we took pivotal steps to establish a robust foundation for the project. A proven EnQuest execution model has been applied to take forward one of the largest current development projects in the North Sea. The Field Development Plan (FDP) for Kraken is scheduled for submission in the second quarter of 2013.

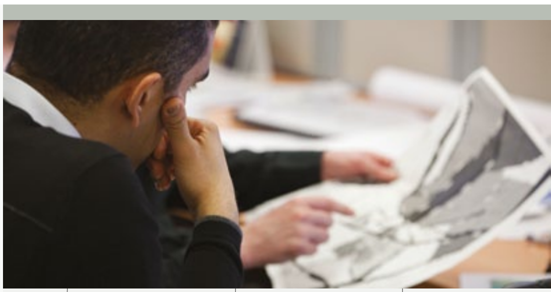
A series of acquisitions during 2012, saw the Company build a 60% interest in this opportunity in the East Shetland Basin, a field which was first discovered in the 1980s. We became operator upon the completion of the last of those deals in September. The proposed development concept is essentially that of a conventional rather than a heavy oil type of development.

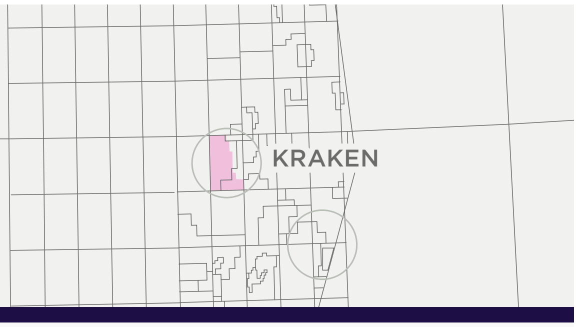
In 2012 the project team was intensely focused on the concept selection phase of the project, ahead of FDP submission. The main phases of subsea installation are expected to begin in early 2015, with first oil from the field targeted in 2016, subject to FDP approval.

A dedicated Kraken team was formed at the early stages of the project, an integrated group comprising of professionals with skills and experience from across the spectrum of industry disciplines.

KRAKEN PROPOSED SUBSEA INFRASTRUCTURE







EnQuest workforce, including offshore contractors, at the end of 2012 approximately

1,600

What makes this project so exciting?

Kraken is a major project for EnQuest, with a technically challenging subsurface environment and a demanding delivery schedule.

For me, I'm excited by the passion I see from the team, the level of expertise from my colleagues, and how the teams share knowledge to come up with creative ideas and solutions.

Name: Andy Beck (left)
EnQuest position:
Kraken Subsurface Team Leader

How important is the team dynamic to a project like Kraken?

Very. The successful delivery of the Kraken project is dependent on the execution of the development as a whole. For this to be achieved, the team needs to be able to interface and understand the implication of each stream of work on the rest of the development.

It is important that all team members are comfortable to freely discuss and achieve a common understanding of what is right for Kraken, and the working environment at EnQuest allows for this.

Name: Alisdair MacInnes (right)
EnQuest position:
Kraken Developments Manager

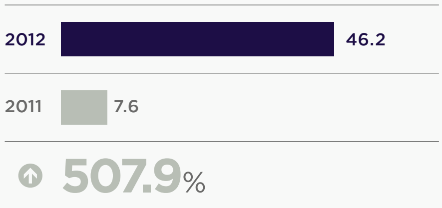
–CHAIRMAN'S STATEMENT

Overview

EnQuest delivered on plan in 2012, with production of 22,802 Boepd. In each of the three years since EnQuest's inception, we have reported good results. Across those three years we have generated a total of $1,517.9 million of cash flow from operations, with production up 68% and an overall reserves replacement ratio of 300%.

Dr James Buckee
Chairman

Basic earnings per share
Cents



This performance is well ahead of our long term target of an average of 10% per annum growth in production and reserves, and reflects the successful implementation of our development and production strategy.

EnQuest's technical, operational and execution capabilities have continued to grow during the year, particularly with the significant progress on the Alma/Galia development and the rapid assimilation of Kraken.

Market conditions

In 2012, EnQuest's average realised oil price, net of hedging, was $111.6 per barrel, up from $107.6 per barrel in 2011. It is now two years since the Brent oil price last averaged below $100 per barrel and market oil price expectations remain high. Whilst we also continue to be positive on the longer term outlook for oil prices, we nonetheless take a prudent approach in the assumptions we use for business appraisal and planning purposes.

In both 2011 and 2012, EnQuest and the rest of the industry actively engaged with the UK Government, seeking improvements in the fiscal structure of the UK North Sea to encourage investment. The improved allowances in the March 2012 UK Budget were encouraging. These were followed in the autumn by welcome new allowances for brownfield projects, in support of investment in mature oil fields. These new allowances are positive for EnQuest as it seeks to extend field lives and to sustain investment in mature North Sea fields, such as Thistle and Heather. The investment this creates safeguards existing jobs and supports the creation of new jobs across the energy supply chain, it also partially restores the momentum lost by the initial tax increase.

EnQuest was also encouraged by recent UK Government measures aimed at providing certainty on the availability of tax relief on decommissioning costs, which should have the effect of increasing investment in the UK North Sea and extending the productive life of the UK's oil and gas reserves. Greater certainty on decommissioning tax relief can be more reliably factored into investment decisions and commercial decommissioning security arrangements and should therefore stimulate new commercial activity across the UK Continental Shelf. This will also help to facilitate the sale of assets to companies most suited to invest in them and EnQuest is in a very good position to take advantage of these developments.

The EnQuest strategy and business model

The implementation of EnQuest's strategy is proving its potential to create value. We believe that EnQuest's development and production focused model can provide consistent returns over the production lifecycle, in contrast to the more speculative nature of frontier exploration. EnQuest realises value from oil field development and production opportunities by targeting maturing assets and undeveloped fields. We exercise a high level of control over developments, as a result of having a majority working interest and being the field operator. We believe that its capabilities differentiate EnQuest; with the levels of expertise we maintain in-house, EnQuest's teams can achieve high levels of collaboration, continuity and accumulated shared knowledge.

EnQuest focuses on hubs, utilising three main approaches. Firstly, we extend field lives by upgrading facilities, utilising modern technology. This includes deployment of subsurface expertise and skill, and modern seismic, to identify the well targets and then execute infill drilling programmes. This extends oil field asset lives. We have already proved this model at Thistle. Daily production levels have increased from lows which were approaching 2,000 Boepd in 2005, to over 8,000 Boepd at the end of 2012, which are the highest levels achieved since the late 1990s. We have plans to invest further in Thistle, these have been facilitated by the new brownfield tax allowances. We are also investing in Heather, where we are upgrading the drilling rig to enable us to drill wells for the first time since 2006.

Marginal field solutions are another important leg of EnQuest's value creation model. We target dormant or undeveloped fields, that may have been too small in scale for the majors. We use a flexible approach and develop new solutions, redesigning and upgrading old facilities and using existing infrastructure. The EnQuest team achieved this at the Don fields and is now using a similar approach at Alma/Galia, with first oil due onstream in Q4 2013, less than three years after we secured the licence.

EnQuest's third value creation leg is through new developments. We acquire interests in assets which may have been thought technically or financially too challenging for others and then deploy EnQuest's capabilities, to commercialise and develop discoveries. After Alma/Galia the new development of the Kraken discovery is our current focus, this would be EnQuest's fifth hub.

The EnQuest Board

In August 2012, I was delighted to welcome Dr Philip Nolan to the Board, as a new Non-Executive Director. Phil's wealth of both technical and management expertise makes him a valuable addition to the Board as EnQuest continues to develop and execute its strategy.

After the assembly of an effective operations team in Aberdeen and the successful implementation of EnQuest's strategy in its critical first years, in November 2012, Nigel Hares decided that he was planning to reduce the amount of time dedicated to EnQuest to be balanced by more time spent on personal affairs.

Nigel therefore stood down from the Board and now advises on future strategy and development. Operations have continued to be managed by David Heslop, General Manager UKCS and his team. Amjad Bseisu, the rest of the Board and I are very grateful to Nigel for the excellent contribution he has made to EnQuest and we look forward to continuing to work closely with him.

EnQuest is its people. I believe that their technical knowledge and capability, their experience and passionate commitment are EnQuest's most important assets. Although the organisation has grown considerably in size, it continues to retain the agility essential to take full advantage of new opportunities. The Board and I would like to thank our workforce for another year of delivery of good results and for putting in place the building blocks for the next stages of EnQuest's growth.

Delivering sustainable growth

EnQuest is proving that it can deliver sustainable growth through increasing production and reserves. Whilst the UK North Sea will continue to be our main focus, there are also potential opportunities to pursue EnQuest's strategy outside the UK. We have taken our first steps internationally, in Norway and Malaysia. We will retain a focused approach to our international expansion.

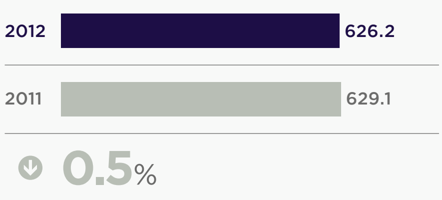
–CHIEF EXECUTIVE'S REPORT

Delivering on target in 2012

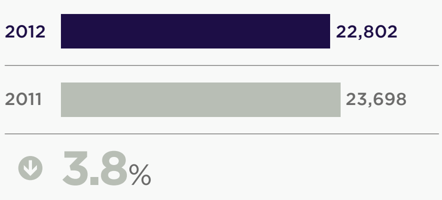
EnQuest executed well in 2012 with production of 22,802 Boepd, which was above the mid-point of our guidance range. This was due to a successful 14 well drilling programme in 2012, including five production wells brought onstream. In the three years since our inception, we have built a strong technically focused organisation that has generated significant levels of production and cash flow.

Amjad Bseisu
Chief Executive

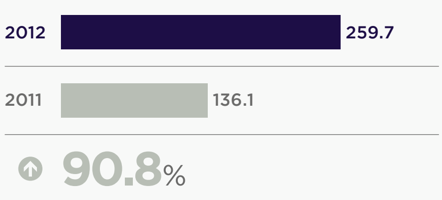
EBITDA
$ million



Production
Boepd



Net profit after tax
$ million



In 2012, cash flow generated from operations was $593.9 million and EBITDA was $626.2 million. A net 3.7% increase in the average realised oil price helped EnQuest to achieve a profit before tax and net finance costs of $405.1 million, 3.8% up on 2011.

SEE MORE OF OUR OPERATIONS ON P24–31

Audited net 2P reserves at the end of 2012 were 128.5 MMboe, an increase of 11.5% on 2011, even with the farm out of Alma/Galia. EnQuest achieved a strong reserves replacement ratio of 262.2% in 2012. This reserves growth reflects positive increases at our existing producing fields, as well as reserves relating to our 20% direct interest in Kraken.

Execution of the Alma/Galia development made significant progress, with the successful batch drilling of six wells and with the modifications to the EnQuest Producer vessel well underway. A major proportion of the subsea infrastructure work was successfully carried out during 2012. The farm out of 35% of Alma/Galia was also achieved during the year, recognising the significant value being generated by the project.

In 2012, EnQuest acquired 60% of the Kraken discovery; potentially one of the largest new oil field developments in the UK North Sea since Buzzard. EnQuest took over as operator in September 2012 and has deployed the same integrated project development capabilities utilised on Alma/Galia. The submission of the Kraken Field Development Plan ('FDP') is expected in Q2 2013.

EnQuest's strategy

EnQuest's development and production focused strategy continues to be implemented successfully; reserves and production growth have been delivered above target. Progress on the Alma/Galia development and on the new Kraken development is demonstrating our ability to execute and to bring new fields onstream. The farm out of 35% of Alma/Galia, with the $175.9 million gain on disposal that it generated, was material evidence of EnQuest's success in turning opportunities into value; both the Alma/Galia and the Kraken projects demonstrate that EnQuest is increasingly a natural partner of choice for major integrated development projects in the UK North Sea.

The UK North Sea continues to have very significant opportunities, with over 300 undeveloped fields remaining. In 2012, EnQuest also announced its first steps outside the UK North Sea. EnQuest has prequalified as an operator in Norway. We have also established a presence in Malaysia. We acquired NIO Petroleum (Sabah) Limited, which owns 42.5% in Blocks SB307 and SB308 offshore Sabah. The opportunity for EnQuest in Malaysia is similar to the UK North Sea, where EnQuest can establish development solutions for existing discoveries as well as taking over mature fields no longer material for the major oil companies.

Our Company, our people

The breadth and depth of EnQuest's teams, their proven skills in engineering, subsurface, execution and operations, their leadership in innovative integrated developments, are all key to our success. Particularly critical is EnQuest's in-house ability to understand the subsurface and to be able to integrate this fully with all the required facilities elements. EnQuest seeks to be the operator of its developments and fields; through operatorship and majority working interests, we exercise a level of control which allows us to take full advantage of our technical skills and operational scale.

By the end of 2012, EnQuest's direct workforce had grown to approximately 500 people, in excess of four times the level at the time of our IPO. As an integral part of EnQuest's recent establishment of a presence in both Norway and Malaysia, we now have small experienced senior teams in place in Stavanger and in Kuala Lumpur.

Health, safety, environment and assurance ('HSE&A')

HSE&A is our top priority and HSE&A is deeply embedded in our culture and values. It is the most critical aspect of how we manage the business, with regard to our people themselves and to our installations and the environment in which we operate. Exhibiting leadership in safety is key and we seek continuous improvement in our HSE&A performance.

Good levels of performance in HSE&A have continued, with EnQuest achieving top quartile performance in several of key HSE&A KPIs. This included a five year Lost Time Incident free ('LTI' free) milestone for the Thistle drill rig, particularly impressive given its high level of activity. EnQuest also achieved a significant reduction in hydrocarbon releases across our assets.

Operations

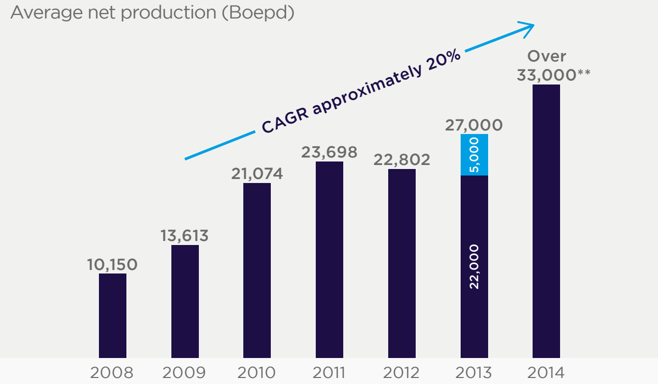
EnQuest drilled 14 wells in 2012, successfully delivering the Thistle and Dons drilling programmes, together with the subsequent increase in production. In addition, EnQuest successfully progressed the installation of the new turbine power generator on Thistle which will deliver the power generation capability to sustain high levels of water injection uptime.

The Alma/Galia development

In 2012, EnQuest received the approval of the Department of Energy and Climate Change ('DECC') for the Alma and Galia developments. EnQuest secured Alma/Galia through the 26th Licensing Round in 2010, extending the life of the first North Sea oil field to come into production.

–CHIEF EXECUTIVE'S REPORT CONTINUED

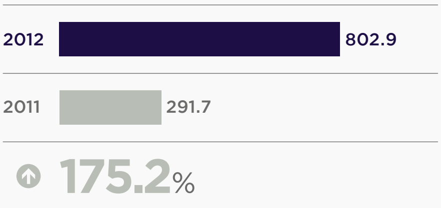
On track to deliver approximately 20% CAGR*
Between 2009 and 2014
Average net production (Boepd)



* Compound annual growth rate
** To be updated following Alma/Galia results

Guidance range

Capital investment
$ million



In February 2013, EnQuest announced an increase in reserves and also in the scope and specification of the Alma/Galia development. The additional scope extends the field life, optimises operating costs and enables a potential second phase of development. Gross project capital expenditure is now approximately $1.3 billion, including contingency. These changes should extend the life of the FPSO vessel, to up to 15 years, and will allow additional wells in any second development phase. With the extended field life, the gross field 2P reserves are increased from 29 MMboe to 34 MMboe. This relates only to the existing first phase of development. The net effect of the capital cost increases, the benefit of the reserves increase and the operational improvements to the project, is a positive increase in the net present value overall; the improvements also create the potential for additional reserves and value in a potential second phase. We remain on track for first oil in Q4 2013.

Kraken – a major development in the North Sea

In 2012, EnQuest acquired the right to 60% of the Kraken oil discovery and became the operator of the proposed development. We are enthusiastic about Kraken, and anticipate it becoming a key part of EnQuest's asset base.

Kraken is anticipated to have a long field life and therefore a production profile that complements shorter life fields such as the Don fields and Alma/Galia. Along with Alma/Galia, Kraken should help to secure EnQuest's medium term production and reserves growth.

EnQuest's execution team is leading the development, utilising its integrated project development capabilities. FDP submission is expected in Q2 2013 and first oil is targeted in 2016.

Near field and low cost exploration and appraisal

EnQuest's exploration and appraisal strategy is focused on low cost and near field opportunities. In 2012 EnQuest participated in two such wells. One was Tryfan, a non-operated well which had significant potential, but proved to be uncommercial. As anticipated, the Kildrummy appraisal well results showed an oil column which was thicker than previously discovered in that field. Analysis of the commerciality of various potential Kildrummy development options is ongoing.

Business development

In 2012, EnQuest further consolidated its existing asset positions and built new ones. Operated oil field development asset opportunities in the UKCS require significant skills and capabilities as well as financial strength. EnQuest is selective and rigorous in its approach, always starting with the fundamentally important subsurface analysis, which is carried out in-house.

In Q1 2012, we agreed the acquisition of a further 18.5% working interest in West Don, increasing our interest to a majority 63.45%. During H1 2012, in three separate tranches, we agreed the acquisition of an aggregate interest of 60% in the Kraken oil discovery, the first tranche for a fixed sum and the second two tranches via development carries. During 2012 EnQuest also increased its interest in the Kildrummy discovery from 40% to 60%.

EnQuest has continued to build its interest in the Cairngorm discovery; having acquired 100% of Block 16/2b of Cairngorm through the acquisition of Stratic Energy Corporation in 2010. We successfully applied for 50% of Block 16/3d, in the UK's 26th Licensing Round and in December 2012, EnQuest took on the ownership of the whole of the Cairngorm discovery. This was achieved by completing the acquisition of the remaining 50% of Block 16/3d through a swap arrangement in exchange for non-core assets which EnQuest owned in Holland.

EnQuest also agreed a small disposal in December 2012, selling a Dutch asset, licence P8 (Horizon West), to Van Dyke Energy for a $3 million initial cash consideration, plus $3 million contingent on future production.

Finally, in October 2012, EnQuest was pleased to have been offered 11 licences in the UK's 27th Licensing Round.

Another strong financial performance
In 2012, EBITDA was again strong at $626.2 million, a similar level to the $629.1 million generated in 2011. This reflected the 3.7% year on year increase in the realised oil price and also the 3.5% expected decline in production. Underlying operational performance was strong.

EnQuest continues to have a strong balance sheet, ending the year with an $89.9 million positive net cash position. Capital expenditure on property, plant and equipment oil and gas assets was $802.9 million in 2012. Capital investment on bringing Alma/Galia towards first oil in Q4 2013, amounted to $421.3 million, including $86.7 million in relation to the carry element of the project. The $184.3 million 2012 investment programme at Thistle contributed to the 48.2% increase in its production during 2012. Other elements of the 2012 capex programme included; $54.0 million at Heather/Broom, $128.8 million on the Don and Conrie fields, and $26.0 million on preparatory work at Kraken.

The unit cost of sales production and transportation was $32.3 per Boe in 2012, similar to the $31.9 per Boe in 2011, despite the impact of reduced production, higher oil prices and general upward pressure on market levels of operating costs. This good result reflects EnQuest's focus on control of costs.

2013 highlights so far
In January 2013, EnQuest announced that it had agreed to acquire an 8% non-operated interest in the producing Alba oil field, in the UK North Sea, adding reserves and producing barrels and further diversifying EnQuest's asset base. This transaction completed in late March 2013.

Tell us why the Heather return to drilling project is such a milestone for the platform

2013 marks the 40th anniversary of the discovery of the Heather field and 35 years of production. Twice in her life Heather faced the prospect of decommissioning, and EnQuest's Return to Drilling (R2D2) project is designed to extend field life to around 2030.

The prime objective of the upgrade project is to provide an enhanced drilling facility in preparation for a comprehensive drilling programme, and the team has already identified many innovative project solutions.

Work is still to be completed, but great progress has been made so far thanks to the teamwork, creativity and collaboration shown by EnQuest and our core contractors.

Name: John Cowie (far right)
EnQuest position:
Heather/Dons Area Manager

–CHIEF EXECUTIVE'S REPORT CONTINUED

Proven and probable reserves (net 2P MMboe)

At 1 January 2012	115.21
Production during 2012	(8.21)
Revisions to estimates	10.23
Discoveries, extensions and additions	20.40
Acquisitions and disposals	(9.11)
As at 31 December 2012	128.52

Contingent resources (net MMboe)

At 1 January 2012	116.78
Revisions to estimates	(7.42)
Discoveries, extensions and additions	8.69
Acquisitions	93.42
Disposals	(27.52)
Promoted to reserves	(21.80)
As at 31 December 2012	162.15

> For detail see page 31.

In Q1 2013, EnQuest successfully raised £145 million from the issue of a retail bond, with a 5.5% coupon and a 2022 maturity. We were pleased, both to have been the first oil company to launch a retail bond on the London Stock Exchange's Order Book for Retail Bonds and also that the issue was one of the largest raised in the market. This bond allows EnQuest to diversify its funding base and extend the tenor of its borrowings and complements our already strong balance sheet.

In Q1 2013, EnQuest also sanctioned the next phase of the Thistle life extension project, facilitated by its qualification for the brownfield allowance programme, announced by the UK Government late in 2012. Thistle is a prime example of how EnQuest is able to recover more oil from maturing assets through a combination of innovation and technical expertise.

Outlook for 2013 and beyond

Average production guidance for the full year 2013 is between 22,000 Boepd and 27,000 Boepd, as approximately 1,000 Boepd has been lost, primarily due to third party shutdowns of the Brent pipeline in Q1 2013. In addition to first oil from Alma/Galia, production improvements will come from three production wells in our existing producing fields; one new production well on Don Southwest, one well coming back onstream as a result of a workover on Heather, and another new well on Thistle. In total in 2013, EnQuest plans to deliver 12 wells. This includes three exploration/appraisal wells, with one each at both Cairngorm and Kraken and a further exploration/appraisal well is expected to be drilled in Malaysia in late 2013.

Why are you considering potential opportunities in Norway?

Entering the Norwegian market is a sensible step for EnQuest as it seeks to expand internationally. The geology in the Norwegian North Sea is very similar to that in the UKCS. The extensive skill set we have within the Company is transferable and we already have a small team working out of Stavanger.

Norway provides an ideal opportunity to replicate our existing business model of targeting undeveloped assets with near field appraisal and exploration prospects.

Name: Ernest Robertson
EnQuest position:
Exploration Team Lead

EnQuest's total investment programme in 2013, prior to regulatory approval of the Kraken FDP, is expected to be approximately $750 million, with around $350 million to be invested in the Alma/Galia development. In addition to the wells programme and the Alma/Galia development work, other major projects will also contribute to reserves and production in 2013 and will provide a foundation for future reserves and production growth. At Thistle, these include the next phase of the late life extension project and the delivery of a secure new power supply through the completion and commissioning of the new 30 MW gas turbine generator. In Q3 2013, following the successful rig reactivation programme, Heather will return to drilling for the first time since 2006.

We continue to target submission of the Kraken FDP in Q2 2013. Pre-development expenditure of around $75 million for Kraken is included in the Group's 2013 investment programme of $750 million; this pre-development expenditure includes the costs of the Kraken appraisal well, being drilled to provide additional data for the main development. The 2013 Kraken expenditure will depend on phasing, particularly near to the year end, as well as potential spending on long lead items.

At the end of 2012, including the licences it was offered in the UK 27th Licensing Round, EnQuest had 39 production licences covering 55 blocks or part blocks, up from 22 production licences at the end of 2011. In addition to the current producing fields, EnQuest is actively considering new development proposals on at least three of its other licences. EnQuest has a strong discovery portfolio within its existing asset base and anticipates it will further consolidate these positions and continue to build new ones. EnQuest's net 2P reserves at the start of 2013 have a life of over 15 years, extending to over 25 years if Kraken contingent resources can be converted into reserves.

With our centre of excellence and capability in Aberdeen, we will continue to take advantage of EnQuest's integrated appraisal, development and operations model, both on our existing asset base and on new basins with mature and undeveloped field potential.

ABRIDGED GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012			2011		
	Business performance US$'000	Exceptional items and depletion of fair value uplift US$'000	Total for period US$'000	Business performance US$'000	Exceptional items and depletion of fair value uplift US$'000	Total for period US$'000
Revenue	**889,510**	**–**	**889,510**	935,974	–	935,974
Cost of sales	**(448,186)**	**(10,251)**	**(458,437)**	(491,817)	(16,973)	(508,790)
Gross profit/(loss)	**441,324**	**(10,251)**	**431,073**	444,157	(16,973)	427,184
Exploration and evaluation expenses	**(23,157)**	**–**	**(23,157)**	(36,962)	–	(36,962)
Gain on disposal of asset held for sale	**–**	**–**	**–**	–	8,644	8,644
Impairment on available for sale assets	**–**	**(4,417)**	**(4,417)**	–	(12,497)	(12,497)
Impairment of oil and gas assets	**–**	**(143,882)**	**(143,882)**	–	–	–
Gain on disposal of property, plant and equipment	**–**	**175,929**	**175,929**	–	–	–
Well abandonment expenses	**–**	**–**	**–**	–	8,194	8,194
General and administration expenses	**(6,650)**	**–**	**(6,650)**	(13,755)	–	(13,755)
Other (expenses)/income, net	**(6,445)**	**–**	**(6,445)**	(3,344)	–	(3,344)
Profit/(loss) from operations before tax and finance income/(costs)	**405,072**	**17,379**	**422,451**	390,096	(12,632)	377,464
EBITDA*	**626,181**	**–**	**626,181**	629,102	8,194	637,296

Notes:
* EBITDA is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion (note 10, adjusted for depletion of fair value uplift), depreciation (note 10), impairment (note 12) and write-off of intangible oil and gas assets (note 12). EBITDA is not a measure of financial performance under IFRS.

–RISKS AND UNCERTAINTIES

Management of risks and uncertainties
The Board has articulated EnQuest's strategy to deliver shareholder value by:
- exploiting its hydrocarbon reserves
- commercialising and developing discoveries
- converting its contingent resources into reserves and
- pursuing selective acquisitions

In pursuit of this strategy, EnQuest has to face and manage a variety of risks. As a result, the Board has established a risk management framework, embedding the principles of effective risk management throughout the business.

Key business risks
The Group's principal risks could lead to a significant loss of reputation or could prevent the business from executing its strategy and creating value for shareholders. These risks, along with mitigating actions are set out below:

Risk	Mitigation
Health, Safety and Environment (HSE) Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including operational safety, personal health and safety, compliance with regulatory requirements and potential environmental harm.	The Group maintains, in conjunction with its core contractors, a comprehensive programme of health, safety, environmental, asset integrity and assurance activities and has implemented a continuous improvement programme, promoting a culture of transparency in relation to HSE matters. The Group has established a Corporate HSE Committee which meets quarterly. HSE performance is discussed at each Board meeting. The Group has also taken over as duty holder on its producing assets and strengthened its operating capability accordingly. In addition, the Group has a positive, transparent relationship with the UK Health and Safety Executive.
Production The Group's production is critical to its success and is subject to a variety of risks including subsurface uncertainties, operating in a difficult environment with mature equipment and potential for significant unexpected shutdowns and unplanned expenditure to occur.	The Group's programme of asset integrity and assurance activities provides 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 procedures 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.
Lower than expected reservoir performance may have a material impact on the Group's results.	Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal peer reviews. The Group's forecasts of production are risked to reflect appropriate production risks.
The Group's delivery infrastructure on the UKCS is dependent on the Sullom Voe Terminal.	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.
Project Execution The Group's success will be dependent upon bringing new developments to production on budget and on schedule. The Alma/Galia development is the Group's first since inception and it involves significant capital expenditure. To be successful, the Group must ensure that project implementation is both timely and on budget. Failure to do so may have a material negative impact on the Group's performance.	The Group has project teams which are responsible for the planning and execution of such 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 Field Development Plans are adhered to and implemented. These are modified when the circumstances require, but only through a controlled management of change process and with the necessary internal and external authorisation and communication. 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. The Alma/Galia development is progressing towards conclusion and all major contracts for supply are procured and in place. In February 2013, EnQuest announced it had approved additional project scope with the objectives of extending the field life, optimising operating costs and enabling a potential second phase development. Drilling, subsea construction and FPSO conversion are all currently in progress.
Reserve Replacement Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value.	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 enable it to manage existing assets and evaluate the acquisition of new assets and licences. All analysis is subject to internal, and where appropriate, external peer review. All reserves are currently externally audited by a Competent Person. In addition, EnQuest has an active Business Development team both in the UK and internationally developing a range of opportunities.

Risk	Mitigation
Financial Inability to fund appraisal and development work programmes.	The Group has secured appropriate bank facilities and has recently issued a retail bond both of which can be used to fund its development activities. This funding is supported 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 suitable resources for its needs.
Human Resources The Group's success is dependent upon its ability to attract and retain key personnel.	The Group monitors its employee value proposition to support the recruitment and retention of technical, commercial and professional personnel, used in identifying and executing its principal activities. Specifically, the Group regularly monitors the employment market to provide remuneration packages, bonus plans and long term share-based incentive plans targeted to incentivise performance and commitment to the Group. To enable the Company to meet its growth aspirations, the Group is undertaking a number of human resource initiatives. These are part of the overall people and organisation strategy and have specific themes relating to organisation, people, performance and culture. Senior management succession planning and development are Board level priorities. There continues to be a significant level of resourcing activity and robust recruitment and selection strategies and processes are in place. EnQuest's experienced HR department will continue to seek to recruit in line with current workforce plans and forecasts. 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. Finally, the Group is developing its international presence and is currently building expertise and capability in those jurisdictions.
Reputation The reputational and commercial exposures to a major offshore incident are significant.	Operational activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors. The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.
Oil Price A material decline in oil and gas prices may adversely affect the Group's results of operations and financial condition.	The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of up to 50% of its production. In order to develop its resources, the Group needs to be able to fund substantial levels of investment. The Group will therefore regularly review and implement suitable policies to hedge against the possible negative funding impacts of changes in oil prices.
Political and Fiscal Changes in the political, regulatory or fiscal environment affecting the Group's ability to deliver its strategy.	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 does engage with Government and other appropriate organisations in order to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations. At a more operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.
Joint Venture Partners Failure by joint venture parties to fund their obligations.	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.
Dependence on other parties where the Group is not the operator.	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.
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.	The Group has a strong balance sheet which puts it in a favourable position to be able to compete effectively and move quickly when looking to acquire assets. The Group also has strong technical and business development capabilities to ensure it is well positioned to identify potential acquisition opportunities. The Group has good relations with oil and gas service providers and constantly keeps the market under review. Human resources are key to the Group's success and programmes outlined above are in place to ensure it can attract and retain key personnel.

–OPERATING REVIEW

2012 operational overview – good execution

In 2012, EnQuest delivered a good overall operational performance, with production at an average of 22,802 Boepd, above the mid-point of our guidance. This success was due to thorough preparation and to excellence in execution. In particular, there was good drilling and intervention work at Thistle/Deveron and the Dons.

This production result was achieved despite the negative impact of third party pipeline outages in H1 2012. By the start of 2013, EnQuest had grown its net 2P reserves to 128.5 MMboe, having achieved a reserves replacement ratio of 262.2% in 2012; EnQuest is demonstrating its ability to deliver production growth for both the medium and the long term. EnQuest's capability continues to grow across all functions and we are pleased to have been able to increase the quality, strength and depth across the organisation.

Nigel Hares
Co-founder and
Strategic Adviser

David Heslop
General Manager
UKCS

Operational highlights of the year also included the safe and effective installation of the new gas turbine generator and local equipment room on Thistle; facilities with a weight of approximately 300 tonnes. The detailed design work for the next phase of the life extension project on Thistle was delivered and work was undertaken to improve water injection capability at Thistle. Another important operational achievement was the improvement in gas compression capability at Heather in H2 2012. The drilling programme at Heather will now start in the second half of the year after the drilling team completes the final well in the current phase on Thistle. Cost performance for all the work performed by the two semi-submersible rigs on contract was enhanced by the commitment to long term contracts in 2011 and 2012 at very competitive rates. Across all our sites in 2011 and 2012, EnQuest has now delivered approximately $100 million of brownfield workscope, demonstrating the commitment and capability in managing mature assets in the North Sea.

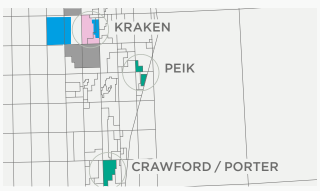
In H1 2012, as a natural evolution of its integrated approach to operations management, EnQuest commenced the transition to become the duty holder on its UK operations. The duty holder is responsible for the safe operation of offshore installations. The transition process has been smooth to date and bringing these skills fully in-house will allow EnQuest to develop further its operational capability. Taking over duty holdership will facilitate future growth through the resulting increased direct control, helping to improve operational, production and cost efficiency. EnQuest plans to take on direct duty holder responsibilities on 27 March 2013.

Safety is the priority across all of EnQuest's operations and 2012 was a good year against our HSE&A performance metrics. We had a successful HSE offshore inspection on Thistle and the Thistle HSE safety case was also approved. We therefore believe EnQuest is increasingly being recognised as a leader in the safety management of life extension activity on aging facilities. The HSE safety case approvals were critical elements of EnQuest's preparation for its transfer to duty holdership.

We recently achieved a half a million man hours LTI free at the Blohm & Voss yard in Hamburg, where the EnQuest Producer FPSO is being modified and refurbished. In recognition of this safety achievement, a donation was made to a community charity in the Hamburg area.

EnQuest asset base as at 31 December 2012
Including the licences offered to EnQuest as part of the UK 27th Licensing Round and Q1 2013 acquisitions

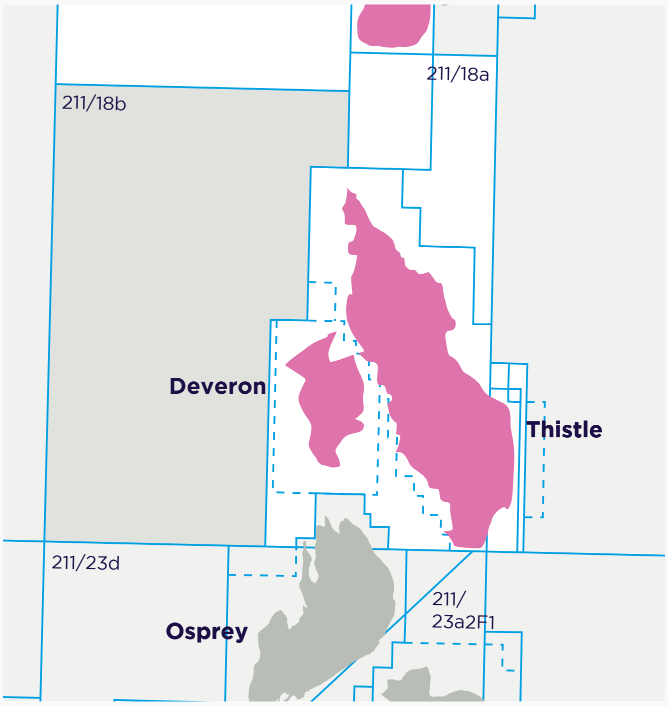
	Licence	Blocks	Respective EnQuest working interest (%)	Name
UK production & developments	P902	2/4a	63	Broom
	P242	2/5	63 & 100	Broom & Heather
	P1077	9/2b & 2c	60	Kraken
	P213	16/26	8	Alba[1]
	P1765	30/24c & 25c	65	Alma
	P1825	30/24b	65	Galia
	P1200 & P236	211/13b & 18a	63	West Don
	P236	211/18a	60 & 60	Don SW & Conrie
	P236	211/18a	99 & 99	Thistle & Deveron
	P475	211/19a	99	Thistle
UK discoveries	P242	2/5	55	SW Heather
	P090	9/15a	33	Peik
	P209	9/28a	51	Crawford & Porter
	P585, P250 & P220	15/12b, 17a & 17n	60	Kildrummy
	P1214 & P1892	16/2b & 3d	100	Cairngorm
	P1107	21/8a	40	Scolty & Torphins
	P1617	21/12c & 13a	40	Crathes
Malaysian discoveries		SB307 & SB308	42.5	Bambazon
UK other licences	P1751	3/1c	100	
	P1608	3/11a	100	
	P1753	3/17	33	
	P1753	3/22a	55	
	P1574	3/26	55	
	P1575	9/6a & 9/7b	60	
	P1463	14/30a	20	
	P1582	20/15a	100	
	P1618	21/13c	40	
	P1790	21/27a & 28/2a	100	
	P1487	211/1a, 2a & 3a	60	
	P1269	211/18c	50	
UK 27th Licensing Round offers	P1967	2/4b	50	
	P1968	2/10a, 3/6 & 3/11c	100	
	P1976	8/5 & 9/1b	60	
	P1978	9/2d	100	
	P1991	14/30c	50	
	P2000	15/17c	100	
	P2030	20/14, 19 & 20	50	
	P2084	21/7a	50	
	P2027	21/17b	100	
	P1996	21/26a, 21/27c, 28/2b & 28/3b	100	
	P2005	22/11b	50	



1 In February 2013, EnQuest announced that it had agreed to acquire an 8% non-operated interest in the Alba producing oil field.

> For detailed map see page 6.

–OPERATING REVIEW CONTINUED



Thistle and Deveron

Working interest at end of 2012:
- 99% in both fields

Decommissioning liabilities:
- remain with former owners (apart from new incremental developments)

Fixed steel platform

Daily average net production:
- 2012: 8,058 Boepd
- 2011: 5,436 Boepd

2012

Production at Thistle/Deveron achieved a net 8,058 Boepd in 2012, up 48.2% on 2011. Base oil production increased over 2011 and was better than expected due to more reliable power and enhanced water injection rates, supplemented with oil production from three installed electrical submersible pumps ('ESPs').

Two new wells were completed during the year. The Deveron P1 ESP well (now A58/03) was completed in Q1 2012 and started production in Q2 2012, with productivity at the upper end of the pre-drill estimate. Drilling on the new A59/45 (a sidetrack of well A46/45 to Area 6) was completed in late September and the third Thistle ESP came onstream in October 2012.

There were three workovers in 2012, all of which achieved their objectives; including two water injection workovers, both of which successfully increased water injection capacity and achieved better target injection support within the reservoir.

In H2 2012 the new power generator was lifted onto the Thistle platform, ahead of planned testing at the end of 2012.

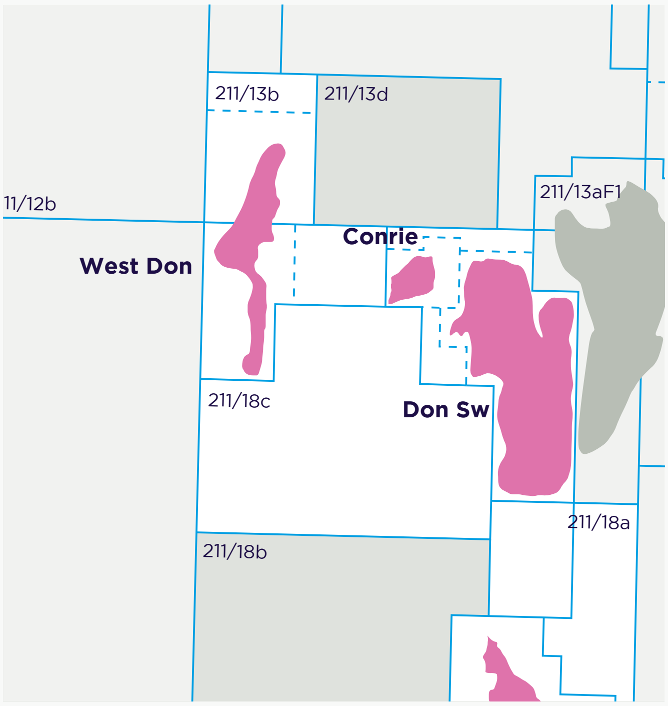
Following a successful wireline intervention, the Thistle A27/17 injection well came back online in mid December, helping to increase year end production levels.

The offshore drilling team on Thistle achieved a major industry safety milestone during the period, with five years of operation without an LTI. The facility also completed a successful regulatory ageing life extension audit.

2013

In February 2013, EnQuest announced that it had sanctioned the next phase of the Thistle life extension project, facilitated by its qualification for the brownfield allowance programme announced by the UK Government at the end of 2012. EnQuest's investment in Thistle so far has included facilities and integrity systems upgrades, a major rig reactivation programme and drilling of six wells, and has resulted in significantly increased production. EnQuest is now implementing a technology led work programme to simplify and streamline processes and to improve production and injection reliability and platform integrity. We anticipate over the medium term this will allow cost reductions on the platform.

In Q1 2013, a workover of the A53/60 injector well was successfully carried out, along with the successful start of the new power turbine generator. In Q2 2013, a new production well is planned in the West Fault Block.



The Don and Conrie Fields

Working interests at end of 2012:
- Don Southwest, 60%
- Conrie, 60%
- West Don, 63.45%

Decommissioning liabilities:
- as per working interests

Floating production unit with subsea wells

Daily average net production:
- 2012: 10,992 Boepd
- 2011: 12,770 Boepd

2012

Production at the Don and Conrie fields achieved a net 10,992 Boepd in 2012, down 13.9% on 2011. The year on year decline was expected and was due mainly to the decline in production from the S5 well, which was drilled and brought onstream in 2010. Overall an extensive drilling and intervention programme in the Dons area was successfully completed on time and on budget in 2012.

In 2012, four wells were drilled in the Don fields. The sidetrack of Don Southwest well S1 to the updip 'horst' area of the field (now designated well S11) came online in July with a good initial rate on prognosis at 15,000 Boepd. Also at Don Southwest, S10Y came onstream in Q4 2012, with an initial rate which was in line with expectations.

West Don well W2 had been shut in pending abandonment since an unsuccessful workover in 2010. Operations to abandon the well were completed during September 2012 and then an up-dip sidetrack of well W2 (now designated well W5) was drilled and brought online in October at an initial rate of 2,000 Boepd.

W6 (NJ) southern injector spudded Q4 2012 and was completed with a successful injection test.

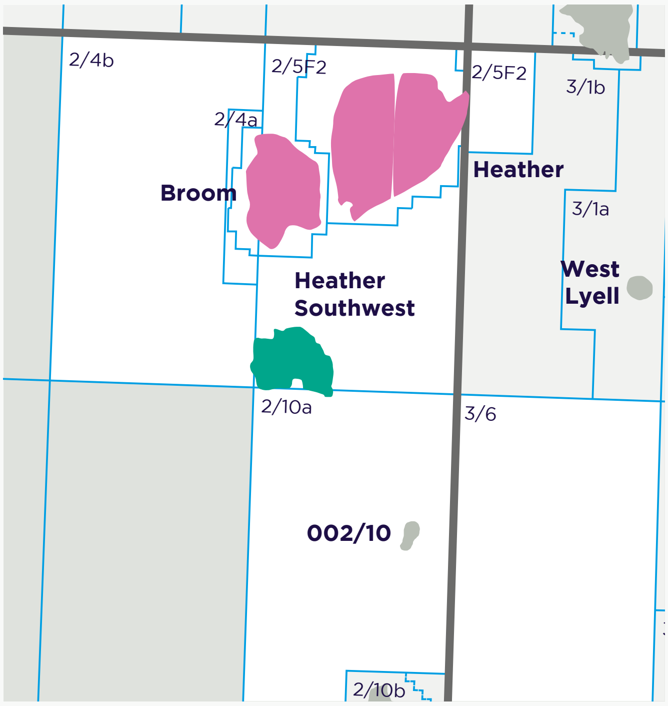
2013

The successful 2012 drilling and intervention programme in the Dons area enabled an early start to the 2013 programme in Don Southwest Area 6. Continued infill drilling included a Don Southwest DS production well, drilled in Area 6. Its injector pair well OB will be drilled in Q2 and both should be online in Q3 2013.

The W6 (NJ) well, which was drilled in 2012, was tied in and brought online in Q1 2013.

The facilities upgrade programme will continue at the Don fields, including a gas compression efficiency pipework project. There will be a two week shutdown in 2013.

–OPERATING REVIEW CONTINUED



Heather and Broom

Working interests at end of 2012:
- Heather, 100%
- Broom, 63%

Decommissioning liabilities:
- Heather, 37.5%
- Broom, 63%

Fixed steel platform

Daily average net production:
- 2012: 3,752 Boepd
- 2011: 5,492 Boepd

2012

Production at Heather/Broom achieved a net 3,752 Boepd in 2012, down 31.7% on 2011; as anticipated reflecting the natural decline in production from the Broom BR2 well. Plant management at Heather was good, resulting in high production efficiency.

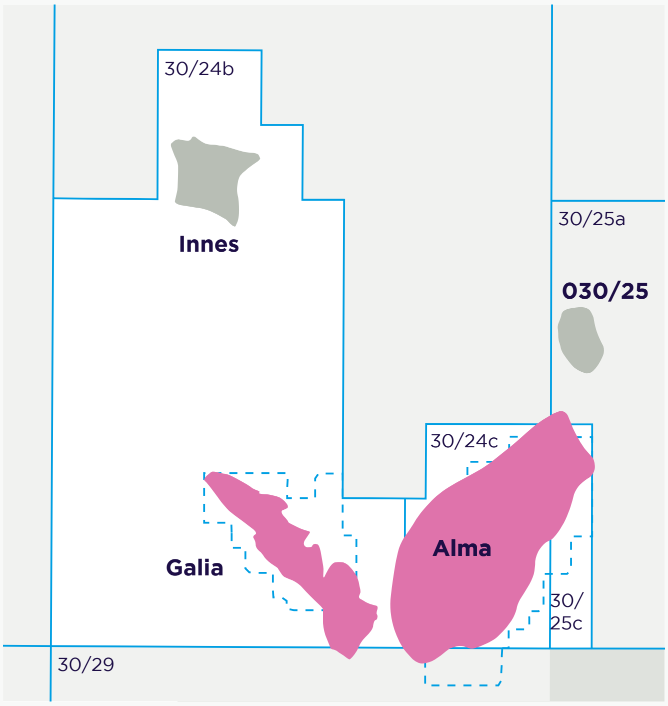
A scheduled one month maintenance shutdown of Heather was successfully completed.

The Heather rig reactivation achieved project milestones, including the installation of an 80 tonne mud treatment package. Extensive maintenance work was required once inspection was completed, which was hindered by the impact of the Norovirus and by a general shortage of helicopters in the North Sea. Completion of the return to drilling programme is expected in Q3 2013.

2013

In 2013, following the return to drilling in Q3, a workover is scheduled to bring H47 back onstream in Q4 2013. A wireline perforation campaign is also scheduled, with additional perforations for three wells planned to result in increases to production. The integrity upgrade programme at Heather will continue into 2013. A three week shutdown will take place in July.

EnQuest will continue with its infill programme at Heather, with 20 potential infill targets, of which nine have been selected for the initial programme.



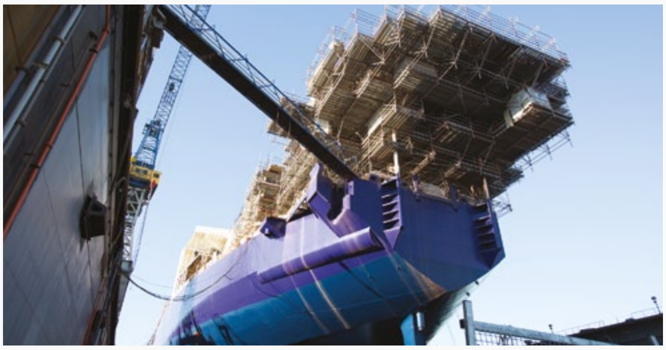
Alma and Galia Development

Working interest:
- 65% in both fields

Decommissioning liabilities:
- 65% in both fields

Floating Production Storage and Offloading unit with subsea wells

First oil anticipated Q4 2013:
- Net peak production to be in excess of 13,000 Boepd



Background
These fields, previously called Argyll and Duncan, were awarded to EnQuest in the 26th Licensing Round in early 2011.

In Q4 2011, EnQuest sanctioned a redevelopment project with nine wells, initially set to recover a gross 29 MMboe of 2P reserves. Having begun with a 100% working interest in the development, EnQuest farmed out 35% to KUFPEC. First production is anticipated in Q4 2013, at a net peak rate of over 13,000 Boepd.

2012
In 2012, DECC approved the FDPs for both the Alma and Galia fields. EnQuest executed well on its development of its new Alma/Galia hub, and finished the year on track for first oil in Q4 2013.

Six wells were successfully batch drilled on Alma in 2012, they were then suspended pending further drilling and the installation of completions. Six wells were batch drilled in 2012 (K1 to K6), of the six, the three that were through the reservoir section at the year end were all at or better than prognosis.

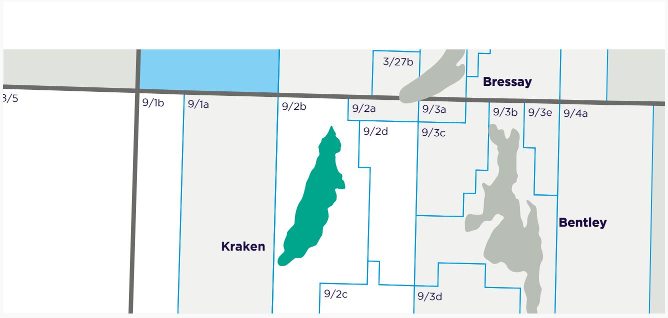
In 2012, the key elements of the project execution required to deliver first oil in Q4 2013 proceeded on schedule. Modification of the floating production storage and offloading ('FPSO') vessel in Hamburg continued with the first dry dock related work nearing completion as planned; destruct work was completed, the refurbishment of the ship systems was well underway and the turret had been reinstalled. The topsides design for the FPSO was finalised around the 2012 year end.

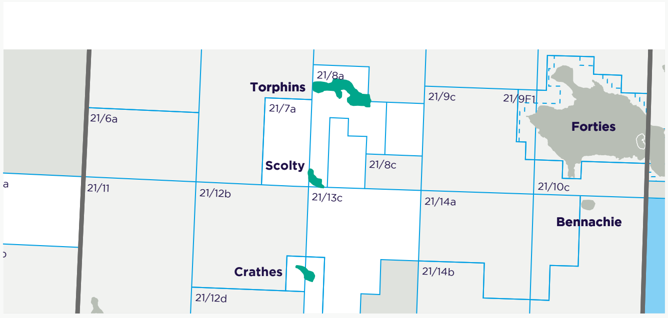
Other key elements of the project also proceeded well, with a major proportion of the subsea infrastructure work successfully carried out by the year end. Pipeline works authorisations were approved for both the Alma and Galia fields and subsea trenching operations were completed. Subsea flowlines were laid between Alma/Galia and the FPSO location, along with the umbilical between Alma and Galia. Riser clump weights were also installed. The mooring installation contract was awarded, as was the pile fabrication sub-contract.

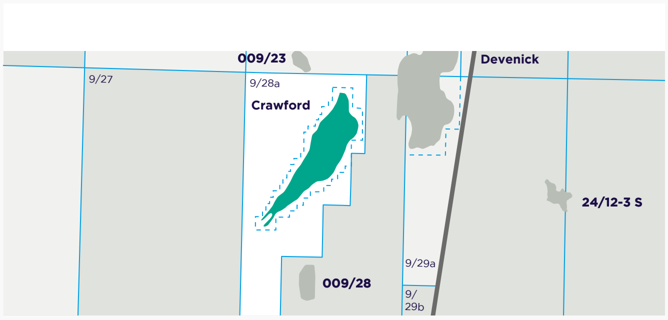
2013
In February 2013, EnQuest announced an increase in the scope and specification of the Alma/Galia project with the objective of extending the field life, optimising operating costs and enabling a potential second phase of development. These improvements add swivel capacity and extend vessel and project life. EnQuest is incurring costs relating to compliance with recent UKCS marine code changes, which require upgrades to the mooring system and strengthening of the swivel and vessel hull.

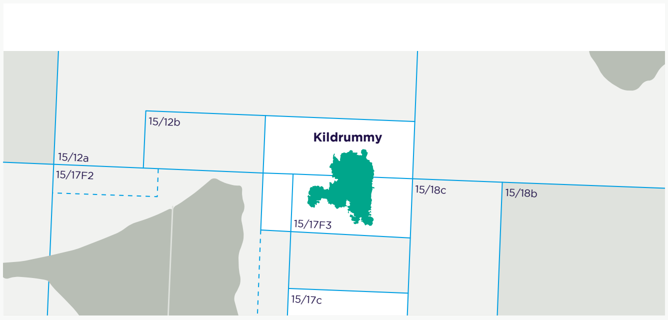
The Alma/Galia drilling programme continues in 2013. Three of the Alma production wells batch drilled in 2012 will be completed in 2013. A new injection well will also be drilled on Alma. EnQuest anticipates 'sail away' of the FPSO in Q3 2013, ahead of first oil in Q4 2013.

–OPERATING REVIEW CONTINUED









The Kraken Development

In 2012, EnQuest acquired a 60% interest in the Kraken discovery and in H2 2012 EnQuest became the operator of the new development. Kraken is a large heavy oil accumulation in the UK North Sea, located in the East Shetland Basin, to the west of the North Viking Graben. It is being progressed to development following earlier appraisal well tests, the successful results of which de-risked the project prior to EnQuest's acquisition of its working interests.

The new development remains on track for submission of the FDP in Q2 2013, and subject to the anticipated regulatory approvals, for first oil in 2016. The Kraken Environmental Statement was submitted in Q1 2013 and the DECC consultation process commenced. Following submission of the FDP and confirmation of all the details that are a pre-requisite for that submission, EnQuest will then provide comprehensive updated detailed information on this project. In 2013, an appraisal well will be drilled at Kraken, in order to provide additional data for the field development.

Crathes/Scolty

Options for a proposed Crathes/Scolty development are being analysed, with a number of potential hosts under consideration. In order to accommodate the time required for this ongoing analysis, a licence extension is being sought and is anticipated.

Kildrummy

The results of the H2 2012 Kildrummy appraisal well showed an oil column which was thicker than previously discovered in that field, although not as thick as had been anticipated. A range of development options continues to be evaluated.

Cairngorm

Cairngorm is a basement opportunity, with potential. An appraisal well is to be drilled in 2013.

Crawford/Porter

Development studies at Crawford/Porter continue; the result of further drilling in the vicinity will be factored into project sanction decisions. Combining Crawford/Porter with other adjacent projects may produce a more economically attractive alternative than a stand-alone project. EnQuest therefore no longer recognises 2P reserves for Crawford/Porter.

Malaysia

In H2 2012, EnQuest acquired a 42.5% interest in Blocks SB307 and SB308 offshore in Sabah, Malaysia; with one near field appraisal opportunity at the oil discovery in Bambazon and five prospects. The partners on the Sabah blocks are Lundin Petroleum and PETRONAS Carigali. EnQuest also acquired an office base in Kuala Lumpur and a small management team with extensive experience in South East Asia. An exploration/appraisal well is expected to be drilled in the area in H2 2013.

EnQuest oil and gas reserves and resources at 31 December 2012

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves (notes 1,2,3 and 6)					
At 1 January 2012		115.21			115.21
Revisions of previous estimates		10.23			10.23
Discoveries, extensions and additions (note 7)		20.40			20.40
Acquisitions and disposals (note 8)		(9.11)			(9.11)
Production:					
Export meter	(8.35)				
Volume adjustments (note 5)	0.14				
Production during period:		(8.21)			(8.21)
Proven and probable reserves at 31 December 2012		**128.52**			**128.52**
Contingent resources (notes 1,2 and 4)					
At 1 January 2012		111.77		5.01	116.78
Revisions of previous estimates		(7.42)			(7.42)
Discoveries, extensions and additions		8.69			8.69
Acquisitions (note 8)		93.42			93.42
Disposals (note 8)		(26.91)		(0.61)	(27.52)
Promoted to Reserves (note 7)		(21.80)			(21.80)
Contingent resources at 31 December 2012		**157.75**		**4.40**	**162.15**

Notes
1 Reserves and 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 have been audited by a recognised Competent Person in accordance with the definitions set out under the 2007 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 volumes are presented pre SVT value adjustment.
7 Contingent resources previously allocated to Kraken have been classified as reserves as a result of ongoing development planning.
8 An additional 18.5% equity was acquired in West Don. 35% of the equity in the Alma/Galia development was farmed out.

How will EnQuest benefit by being the duty holder?

As EnQuest continues to grow, a natural and logical progression for the Company is to move to a more integrated approach to Operations Management. Taking on duty holder responsibility at all our operated sites will allow EnQuest to be in direct control of all its operations which will result in a fully engaged workforce all moving towards a common goal of safe results with no harm to people and respect for the environment.

Name: Andy Lane
EnQuest position:
Duty Holder Project Director

–FINANCIAL REVIEW

Financial Overview

The Group's financial performance in 2012 reflects good operational performance and a period of significant capital investment in growth projects throughout the year.

Jonathan Swinney
Chief Financial Officer

In the year ended 31 December 2012, the Brent crude oil price averaged $111.7 per barrel broadly the same as $111.4 per barrel average for 2011. As anticipated, total production volumes were 3.5% lower for the 12 months to 31 December 2012 and this, together with a net under-lift position at 31 December 2012, resulted in revenues for the year of $890 million compared with $936 million in 2011.

	Business Performance	
	2012 $ million	2011 $ million
Profit from operations before tax and finance income/(costs)	**405.1**	390.1
Depletion and depreciation	**208.0**	202.0
Intangible impairments and write-offs	**13.1**	37.0
EBITDA	**626.2**	629.1

EBITDA for the 12 months ended 31 December 2012 was $626.2 million compared with $629.1 million in 2011. The lower EBITDA is due to lower production volumes partially offset by lower intangible impairments and write-offs, lower operating costs, tariffs and transportation costs in 2012 and higher oil collar hedging costs in 2011.

The Group entered 2013 with $89.9 million net cash. Strong ongoing operating cash flows from its existing portfolio of assets and a new credit facility have been used to fund a significant capital investment programme. In March 2012, the Group established a new multi-currency revolving credit facility of up to $900 million with seven banks. Initially $525 million was committed and the further amounts will be available depending on oil reserves, including increases resulting from acquisitions. The new facility replaced the previous $280 million facility which expired in March 2012. In Q1 2013, EnQuest successfully raised £145 million from the issue of a retail bond, with a 5.5% coupon and a 2022 maturity. This bond allows EnQuest to diversify its funding base and complements the already strong balance sheet.

Income Statement

Production and revenue

Production levels, on a working interest basis, for the 12 months to 31 December 2012 averaged 22,802 Boepd compared with 23,698 Boepd in 2011. The decrease in production was expected and due mainly to lower volumes on the Don fields and Heather and Broom, offset by higher volumes from Thistle. Production in the Don fields was lower mainly due to the decline in production from the S5 well. This was partially offset by a full year's production from S8Z and the new S10 and S11 wells and W5 sidetrack as well as the acquisition of an additional 18.5% in West Don. Heather and Broom production was lower than 2011 due to natural field decline, a planned shutdown on Heather and by the unscheduled third party related closure in Q2 2012 of the Ninian Pipeline System. Thistle volumes were higher due to the two new wells that came into production during the year.

The Group's blended average realised price per barrel of oil sold was $111.6 for the 12 months to 31 December 2012, broadly in line with the $111.8 per barrel excluding oil collar hedging costs ($107.6 per barrel including oil collar hedging costs) for 2011. This is consistent with average oil prices for 2012 and 2011. Revenue is predominantly derived from crude oil sales and for the 12 months ended 31 December 2012 crude oil sales were $879.3 million compared with $960.4 million in 2011. The reduction in revenue is due to lower production and an under-lift in the year of $24.4 million compared with an over-lift of $14.6 million in 2011.

Operating costs

Cost of sales comprises cost of operations, tariff and transportation expenses, change in lifting position, inventory movement and depletion of oil and gas assets. Cost of sales for the Group (pre-exceptionals and depletion of fair value adjustments) were as follows:

	Reported Year ended 31 December 2012 $ million	Reported Year ended 31 December 2011 $ million
Cost of sales	**448.2**	491.8
	$	$
Unit operating cost, adjusted for over/under-lift and inventory movements (per Boe):		
– Production and transportation costs	**32.3**	31.9
– Depletion of oil and gas properties	**24.7**	23.2
	57.0	55.1

Cost of sales pre-exceptionals and depletion of fair value adjustments was $448.2 million for the year ended 31 December 2012 compared with $491.8 million in 2011. The decrease of $43.6 million is mainly due to the $39.0 million change in lifting position from a net over-lift in 2011 to a net under-lift at 31 December 2012, together with a decrease in operating costs.

The Group's operating costs comprise cost of operations and tariff and transportation expenses which were $269.5 million for the year ended 31 December 2012 compared with $276.1 million in 2011. The decrease in operating costs was due to shutdowns and major works on Thistle in 2011 and the S2 well intervention on Don Southwest in 2011. This was offset by a full planned shutdown on Heather and the W1 well intervention on West Don, together with lower tariff and transportation costs due to lower production volumes in the year ended 31 December 2012 compared with 2011. The increase in the Group's average unit production and transportation cost of $0.4 per Boe for the year ended 31 December 2012 compared with 2011 is primarily attributable to the lower levels of production in the Don fields and Heather and Broom.

The Group's depletion expense per Boe for the year is broadly consistent with the previous year with an increase of $1.5 per Boe (6%). The primary reason for this is higher estimates of the future capital expenditure requirement on the Don fields.

The Group's change in lifting position was $24.4 million income for the year ended 31 December 2012, compared with expense of $14.6 million in 2011. The net under-lift during 2012 has arisen due to an under-lift balance at 31 December 2012 of $9.3 million mainly in the Don fields combined with the reversal of the over-lift of $15.1 million at the end of 2011 mainly in the Thistle and Broom fields.

–FINANCIAL REVIEW CONTINUED

Exploration and evaluation expenses
Exploration and evaluation expenses were $23.2 million in the year ended 31 December 2012, compared with $37.0 million reported in the previous year. The expenses in 2012 primarily relate to the costs of Norway licence applications and the UK 27th Licensing Round, the cost write-off associated with the Juniper, Gorse and Pilot licences following a decision to relinquish these licences and the cost of the unsuccessful Tryfan exploration well.

General and administrative expenses
General and administrative expenses were $6.7 million in the year ended 31 December 2012 compared with $13.8 million reported in the previous year. The expenses primarily relate to the Group's general management and business development expenses net of recharges to joint venture partners. The decrease in general and administrative expenses of $7.1 million reflects the increasing number of joint ventures which are subject to such recharges.

Other income and other expenses
Other income includes monies received from a third party as compensation for the termination of a business development transaction. Other expenses includes net foreign exchange losses of $5.5 million and expenses related to the ineffectiveness of foreign currency contracts designated as hedges of $2.9 million in the year ended 31 December 2012.

Taxation
The tax charge for the year of $126.4 million excluding exceptional items, represents an effective tax rate of 33% compared with 64% in the previous year. The decrease in the Group's effective tax rate for the year is mainly due to the benefit provided by leasing arrangements, the increase in the ring fence expenditure supplement and prior year deferred tax adjustments. Partially offsetting these decreases, in July 2012, the Finance Act 2012 brought in a restriction on the tax relief available on decommissioning expenditure incurred on or after 21 March 2012 to 50% which has resulted in an increase in the tax charge of $3.9 million.

Exceptional items and depletion of fair value uplift
Exceptional income totalling $17.4 million before tax has been disclosed separately in the year ended 31 December 2012 relating to:

- a $175.9 million gain on disposal of 35% of the Alma/Galia development through the farm out and cost carry agreement with KUFPEC;
- a $143.9 million impairment of the Heather and Broom hub following a delay in phasing of production, particularly to allow the drilling of the West Fault Block well at Thistle in 2013 and an increase in estimated capital expenditure associated with the field life extension programme. The Heather and Broom hub inherited a high net book value of $423 million, reflecting the fair value uplift when Lundin acquired the Heather and Broom assets prior to the formation of EnQuest; and
- a non-cash impairment of $4.4 million in relation to the valuation of the Group's shareholding in Ascent Resources plc.

In addition, a one off deferred tax adjustment of $10.4 million in respect of the restriction on the tax relief available on decommissioning expenditure on UK oil and gas offshore activities has been reported as an exceptional item.

Additional depletion costs of $10.3 million have resulted from the fair value uplift of the Dons oil and gas assets on acquisition at IPO and are reported as a fair value adjustment.

Finance costs
Finance costs of $21.2 million include $0.7 million of loan interest payable, $10.1 million unwinding of discount on decommissioning provisions, a non-cash unrealised loss of $2.1 million on the marked-to-market of the Group's 2012 oil collars which are deemed ineffective for hedge accounting purposes. Other financial expenses are primarily commitment and arrangement fees relating to the new bank facilities and letter of credit fees. The Group capitalised $0.4 million for the year ended 31 December 2012 in relation to the interest payable on borrowing costs on its capital development projects.

Finance income
Finance income of $2.2 million includes $0.7 million of bank interest receivable, a non-cash unrealised gain of $0.9 million on the marked-to-market of the Group's 2013 oil collars which are deemed ineffective for hedge accounting purposes and $0.5 million unwinding of discount on the financial asset created as part of the consideration for the farm out of the Alma/Galia development to KUFPEC.

Earnings per share

The Group's reported basic earnings per share were 46.2 cents for the year ended 31 December 2012 compared with 7.6 cents in 2011. The increase of 38.6 cents is attributable to an increase in gross profit, a lower effective income tax rate in the year ended 31 December 2012 compared with the previous year, together with the exceptional gain on the disposal of fixed assets. This was partially offset by the impairment of the Heather and Broom hub. The Group's reported basic earnings per share excluding exceptional items were 33.1 cents for the year ended 31 December 2012 compared with 17.0 cents in 2011. The increase of 16.1 cents is mainly attributable to the lower effective income tax rate in the year ended 31 December 2012 compared with the previous year.

Cash flow and liquidity

The Group's reported cash generated from operations in 2012 was $593.9 million compared with $656.3 million in 2011. The reported cash flow from operations per issued Ordinary share was 75.7 cents per share compared with 81.9 cents per share in 2011. This reduction in cash generated from operations is primarily due to the increase in joint venture receivables which relates to the significant capital expenditure on the Alma/Galia development.

During the year ended 31 December 2012, $0.8 million of income tax payments were made in relation to the settlement of EnQuest North Sea BV's Dutch corporate income tax liabilities. It is anticipated that the underlying effective tax rate for 2013 will be approximately 60%, excluding one-off exceptional tax items. The Group also does not expect a cash outflow for UK income tax on operational activities until beyond 2014. This is due to the projected level of capital expenditure, which benefits from tax deductible first year capital allowances, and accumulated tax losses which are themselves largely attributable to the Group's capital investment programme to date.

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

	2012 $ million	2011 $ million
Expenditure on producing oil and gas assets	**323.9**	170.9
Development expenditure	**381.1**	43.6
Exploration and evaluation capital expenditure	**128.4**	54.0
Other capital expenditure	**8.9**	9.4
	842.3	277.9

Significant projects were undertaken during the year, including:

- the Alma/Galia development;
- the Thistle drilling programme including A58/03, A59/45, A56/13, A13/22, A53/60, A22/59 and late life extension programme for facilities including the power generation upgrade;
- the acquisition of a further 18.5% interest in West Don and on the Don fields the S10, S11 and W5 producer wells, and the W6 injector well;
- the programme to reactivate the drilling rig on the Heather platform;
- the acquisition of the interests in Kraken and subsequent expenditure to progress the opportunity to sanction in 2013; and
- the Kildrummy and Tryfan exploration wells and activities on actual or potential exploration prospects and pre-drilling costs.

Net cash at 31 December 2012 amounted to $89.9 million compared with $378.9 million in 2011.

In Q1 2013, EnQuest successfully raised £145 million from the issue of a retail bond, with a 5.5% coupon and a 2022 maturity. This bond allows EnQuest to diversify its funding base and complements the already strong balance sheet.

How significant is the brownfield tax allowance?

This is a positive step which demonstrates the Government's commitment to the future of the North Sea. For Thistle in particular, the allowance has helped to ensure the commercial viability of the next phase of the Late Life Extension project.

Name: Kim Combe (near right)
EnQuest position:
Thistle Business Analyst

–FINANCIAL REVIEW CONTINUED

KEY PERFORMANCE INDICATORS

	2012	2011
Lost Time Incident Frequency (LTIF)	**2.00**	0.90
2P reserves (MMboe)	**128.52**	115.21
Business performance data:		
Production (Boepd)	**22,802**	23,698
Revenue ($ million)	**889.5**	936.0
Realised oil price per barrel ($)	**111.6**	107.6
Opex per barrel (production and transportation costs) ($)	**32.31**	31.9
Gross profit excluding exceptional items ($ million)	**441.3**	444.2
Capex on property, plant and equipment oil and gas assets ($ million)	**802.9**	291.7
Capex on intangible oil and gas assets ($ million)	**116.2**	64.2
Reported data:		
Cash generated from operations ($ million)	**593.9**	656.3
Net cash ($ million)	**89.9**	378.9
Profit before tax ($ million)	**403.4**	362.8
Cash generated from operations per share (cents)	**75.7**	81.9
Basic earnings per share (cents)	**46.2**	7.6
Basic earnings per share excluding exceptional items (cents)	**33.1**	17.0

During the year, the Group changed the frequency used in recording its Lost Time Incident Frequency (LTIF) metric, to align with the Oil & Gas UK standard, which during 2012 the Group found to be the most appropriate benchmark. The 2011 comparative figure has been restated from an LTIF of 0.44 to an LTIF of 0.90.

Balance Sheet

The Group's total asset value has increased by $596.1 million to $2,544.8 million at 31 December 2012 (2011: $1,948.7 million).

Property, plant and equipment

Property, plant and equipment (PP&E) has increased to $1,816.6 million at 31 December 2012 from $1,273.6 million at 31 December 2011. The increase of $543.0 million is mainly due to oil and gas asset capital additions including farm ins and farm outs of $802.9 million, other additions of $8.9 million, a reclassification of Kraken costs of $62.0 million from intangible assets on recognition of 2P reserves and additional decommissioning provisions of $62.2 million, mostly arising on drilling new development wells, partially offset by depletion and depreciation charges of $218.3 million in the year, the impairment of the Heather and Broom hub of $143.9 million and a reclassification of Crawford/Porter to intangible assets of $30.8 million.

The oil and gas asset capital additions during the year are set out in the table below:

	2012 $ million
Dons hub	128.8
Thistle hub	184.3
Heather and Broom hub	54.0
Alma/Galia	421.3
Other new developments	14.5
	802.9

Intangible oil and gas assets

Intangible oil and gas assets increased by $73.2 million to $97.5 million at 31 December 2012. The increase is mainly due to the reclassification of Crawford and Porter costs from PP&E to intangible fixed assets, the cost of the Kildrummy exploration well and the acquisition of the Malaysian exploration licences. The Kraken acquisition costs and the subsequent additions during the year have been transferred to PP&E.

Investments

The Group holds an investment of 160,903,958 new ordinary shares in Ascent Resources plc which is valued at $2.3 million based on the quoted bid price as at 31 December 2012.

Asset held for sale

During 2012, the $1.3 million of costs associated with the Group's Dutch licences, which had been classified as held for sale at 31 December 2011, were reclassified to intangible fixed assets on finalisation of a swap arrangement with Sterling Resources Limited for a 50% share in the Cairngorm licence Block 16/3d.

Trade and other receivables

Trade and other receivables have increased by $113.1 million to $239.7 million at 31 December 2012 compared with $126.6 million in 2011. The increase is mainly due to higher joint venture receivables which relates primarily to the significant capital expenditure on the Alma/Galia development together with an increase in receivables of $9.3 million relating to net under-lift position at 31 December 2012.

Cash and bank

The Group had $124.5 million of cash and cash equivalents at 31 December 2012 and $34.6 million was drawn down on the $900 million multi-currency revolving credit facility. Of the facility, $525 million was initially committed with additional amounts up to $900 million becoming available dependent on increasing reserves or through acquisitions. Included within the cash balance at 31 December 2012 is restricted cash of $14.9 million relating to cash held under Performance Guarantee Agreements with suppliers.

Provisions

The Group's decommissioning provision increased by $51.8 million to $233.0 million at 31 December 2012 (2011: $181.2 million). The increase is due to the combined impact of additions of $37.6 million during the year resulting from the Group's drilling programme, $7.5 million due to farm in and farm out activity, $10.1 million due to changes in estimates and $10.1 million due to the unwinding of the discount. This was offset by utilisation of the provision of $13.6 million on well abandonment and various small facility decommissioning workscopes.

Income tax

The Group's income tax liability increased to $3.8 million at 31 December 2012 from $1.7 million at 31 December 2011. The increase of $2.1 million is due to UK income tax arising on foreign exchange movements. The income tax asset as at 31 December 2012 represents the expected refund on exploration activities undertaken in Norway, and an expected refund in Holland on the carry back of tax losses incurred in 2012.

Deferred tax liability

The Group's deferred tax liability (net of deferred tax assets) has increased by $31.7 million to $609.1 million at 31 December 2012 from $577.4 million in 2011. The increase is mainly due to the capital expenditure programme undertaken by the Group during the year which provides the Group with 100% first year capital allowance claims, as well as an increase in ring fence taxation losses carried forward. There was a one-off deferred tax adjustment of $10.4 million in respect of the restriction on decommissioning relief which has been reported as an exceptional item together with a deferred tax credit of $89.2 million in respect of the impairment of the Heather and Broom hub. Total losses carried forward at the year end amount to approximately $600 million. This excludes $54.5 million of pre-trading expenditure which is expected to become tax deductible in 2013.

Trade and other payables

Trade and other payables have increased to $329.7 million at 31 December 2012 from $234.3 million at 31 December 2011. The increase of $95.4 million is primarily due to an increase in trade creditors and accruals of $96.1 million resulting from the Group's drilling and capital project programmes which were ongoing at the end of 2012.

Financial Risk Management

The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. During 2011, put and call options covering 3 million barrels of oil production in 2012 were entered into partially to hedge the exposure to fluctuations in the Brent oil price. The 2012 oil price hedge contracts consisted of put spreads at $95 per barrel and $70 per barrel and calls at an average of $122 per barrel, all executed at nil cost. In May 2012, one of the oil price collars was re-priced to give a revised average cap of $123.3 per barrel.

Between November 2012 and February 2013, further put and call options covering 4.60 million barrels of oil production for 2013 were entered into to partially hedge the exposure to fluctuations in the Brent oil price. The 2013 oil price hedge contracts consist of put spreads at $95-$100 per barrel and $70-$75 per barrel and calls at an average of $121.6 per barrel, all executed at nil cost.

As a result of the commodity price hedging programme undertaken, EnQuest has protected approximately $440 million of its capital expenditure for 2013, assuming the oil price remains above the lower level of the put spreads. This equates to over half of the capital expenditure programme projected for 2013.

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. During the second half of 2011, the Group entered into a number of forward currency contracts to hedge a total of £126.5 million (at an average rate of $1.577 to £1) and €52.7 million (at an average rate of $1.34 to €1) of forecast 2012 capital project spend. During 2012 EnQuest did not enter into any foreign exchange hedging contracts. EnQuest will continue to look at opportunities to enter into foreign exchange hedging contracts, in line with the policy agreed by the Board which allows for up to 50% of operating expenditure and 70% of capital expenditure to be hedged, in order to mitigate the risks of large fluctuations in the currency markets, specifically the US dollar versus sterling and the US dollar versus the euro. 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.

–CORPORATE SOCIAL RESPONSIBILITY REVIEW

EnQuest's ongoing commitment to responsible operations is captured by the terms of our principal aim: safe results, with no harm to people and respect for the environment.

Safe results, with no harm to people and respect for the environment

Our work in this regard is strengthened by the EnQuest values, which are increasingly serving to shape and influence attitudes, behaviours and practices across our organisation. We are determined to maintain a positive and proactive Health, Safety, Environment and Assurance ('HSE&A') environment that reflects those values.

Our overall HSE&A performance in 2012 illustrates how EnQuest's principles can deliver significant achievements. Prominent among our accomplishments was the recording of five years free of Lost Time Incidents (LTIs) on drilling operations in the Thistle field, as well as a successful Health and Safety Executive (HSE) offshore inspection on Thistle. Further, the HSE approved a material change to the installation's safety case.

EnQuest's LTIF score increased from 0.9 in 2011 to 2.0 in 2012. The LTIs were of low risk potential. The number of events which could have had potentially high or serious consequences (known as high incident potential occurrences or HIPOs) reduced significantly from 4 in 2011 to only 1 in 2012.

We recorded a marked reduction in hydrocarbon releases: one was recorded during 2012, compared to three in 2011. A review of bunkering operations yielded a drop in bunkering related incidents, from 12 in 2011 to 6 in 2012.

Operationally, we completed an actuator repair to eliminate a subsea hydraulic control fluid leak in the Broom field, allowing for the reinstatement of the Broom gas lift subsea isolation valve.

Bill Marr (left) and Audrey Sinclair (right) receiving EnQuest's Healthy Working Lives silver award

EnQuest's Environmental Management System (EMS) was further developed during the year. It plays a crucial role in ensuring that we effectively manage and mitigate our impact on the environment. The system is aligned with the requirements of the environmental management system standard ISO 14001. As required by the Department of Energy and Climate Change under OSPAR (the Oslo and Paris convention for the protection of the marine environment of the North East Atlantic), EnQuest's environmental management system was independently verified against the ISO 14001 principles. EnQuest successfully obtained re-verification.

Our ongoing work to foster a culture of health and wellbeing across the organisation paid dividends. Having been presented with a Healthy Working Lives (HWL) bronze award in 2011, we received a silver award in 2012. Through 2013 EnQuest will continue to support this Government initiative designed to help employers create a safer, healthier and more motivated workforce, as it offers practical information and advice to help improve health and safety and the wellbeing of everyone at work.

Throughout the year we continued to broaden the capabilities and expertise of the HSE&A team, making a number of new appointments. We added an Occupational Health Adviser, Human Factors Adviser, Graduate Environmental Adviser and Safety Engineering Technical Authority to the team.

A maturing organisation

EnQuest's focus following our launch was on building our organisation and demonstrating our commercial and operational credentials. During 2012 we built on that in many respects, maturing organisationally and developing a distinctive EnQuest culture that we are now successfully projecting both within and beyond the business.

We continued to grow significantly during 2012: 82 new employees and 183 new contractors joined us. At the end of 2012, there was a direct workforce of approximately 500, rising to around 1,600 including offshore contractors.

People have joined us in significant numbers in several key areas, including new developments, wells delivery and operations, as well as in the geoscience and reservoir disciplines. Our 2012 attrition rates compared very favourably with wider industry trends at approximately 10%.

We can conclude that our strategy to attract skilled and committed people within a tight recruitment market remains highly effective, while we are continuing to punch above our weight in terms of retention. That success is based on two key elements: a strong production and development strategy that presents new and exciting challenges to industry professionals, and our set of organisational values.

Those values are serving to drive the development of our distinctive EnQuest culture, which increasingly represents a competitive advantage for our business as we look to broaden our horizons. In order to accommodate the continuing growth of the business, plans are being progressed to build new operational headquarters in Aberdeen. We have recently established a presence in Malaysia, where we now have interests in two blocks offshore Sabah. We have opened an office in Stavanger, Norway, in support of plans to develop interests in

The nursery children from Aberdeen's Tullos Primary enjoying their new waterproofs

the Norwegian North Sea. The port of Hamburg has also become a key area of activity for us, hosting the refurbishment and modification work on the EnQuest Producer for the Alma/Galia development.

Alma/Galia features among the performance highlights of 2012 as significant progress was achieved across the project environment. The year was also characterised by strong production delivery rates, a successful wells campaign, and robust transition preparations ahead of assuming duty holder status in 2013. It also featured a strong performance by our London based business development function. It is a strategic priority to ensure we have the capabilities, resources and leadership in place to maintain the momentum across all these areas.

Our new people and organisation strategy will be central to that commitment. A framework for achieving our growth objectives, it is based on four themes; the right organisation, with great people, who deliver exceptional performance, in the EnQuest way. This strategy provides the reference points for new phases of activity in building the organisation, and it will be clearly articulated across the organisation and beyond throughout 2013 and 2014.

The people and organisation strategy captures many principles of the EnQuest culture, the development of which during 2012 took the form of many different strands. One of those involved the formation of the EnQuest Leadership Network. With a stable leadership team in place, the network has been established to link people from different areas of EnQuest and engage them with the organisation in a wider context.

They are being encouraged to lead their respective areas in ways that serve to connect the whole business, armed with a greater understanding of its breadth and how they contribute to the overall strategy. The initiative supports our culture by promoting enhanced communication, greater interaction and performance excellence.

A positive community contribution
EnQuest's work to develop ever closer relationships in our local community, and provide active and tangible support in line with our community and charity policy, took on many and diverse forms during 2012.

One of the most significant developments reflected our commitment to develop sustainable relationships with individual organisations. We nominated Aberdeen based Archway, which supports adults and children with learning disabilities, as our chosen charity. We aim to raise £100,000 over two years to help it create several new facilities. By the end of the 2012, nine months into the campaign, we had already raised over £35,000 through a diverse range of fundraising activities. Our plans for 2013 also include supporting a local authority initiative to restore the Piper Alpha Memorial Garden at Aberdeen's Hazlehead Park in time for the 25th anniversary of the disaster in July 2013.

EnQuest again supported a range of initiatives at Tullos Primary School, enhancing a relationship that dates back to 2010. This included a contribution of waterproof suits to allow nursery age children to use the Aberdeen school's outdoor area in any weather. Our corporate support activities extended to numerous other educational institutions, local good causes and charity campaigns. EnQuest people, both as individuals and groups, instigated and completed a variety of fundraising projects to benefit specific charities.

The Company fosters a working environment that encourages participation in community focused activities, as well as in health, wellbeing and team focused opportunities. During 2012, Team EnQuest competed in league 1 of the Corporate Decathlon after being promoted the previous year. Applying EnQuest values such as collaboration, passion, agility and focus, it recorded a series of notable achievements against teams from many of the largest businesses in the northeast of Scotland.

How does EnQuest sustain a robust HSE&A culture?

The organisation fully supports the HSE&A Continuous Improvement Plan which encompasses a series of projects, campaigns and reviews, with the core aim of achieving further improvements across the areas of process safety, personal safety and health, environmental performance and quality assurance.

However the key to our success is sustainability and we are committed to maintaining an HSE&A culture that reflects our Company values and marries with our long term plans for our people and the environment.

Name: John Atkinson
EnQuest position:
Head of HSE&A

–ENQUEST VALUES

EnQuest people are safe, creative and passionate, with a relentless focus on results.

EnQuest's people are unified by a common set of values, these values are what differentiates us as an organisation.

Amjad Bseisu
Chief Executive

We have a Code of Conduct which sets out the behaviours we must follow. The values however inspire us to create the organisation that we want it to be.

Stefan Ricketts
General Counsel

Colin Smith
Logistics Superintendent – Aberdeen

Respect

In EnQuest respect is paramount, for our people, our environment and the safety of others.

"At EnQuest everyone works to the same level and talks to each other, not at each other, or down to each other. You can see the respect come through and with this you get far more cooperation."

Michelle McRobbie
Process Engineer – Hamburg

Focus

EnQuest is an organisation with a relentless focus on results. Our people are accountable and responsible, and entrusted to take ownership of decisions and appropriate actions.

"If you are out in the shipyard, on the vessel, or anywhere in the yard you have to constantly be aware of what's going on around you. You cannot lose your focus – and it's great!"

Simon Richards
Drilling Operations Manager – Aberdeen

Agility

Nimble technical and commercial behaviour from a responsive and flexible team allows EnQuest to meet its growth targets and to react to challenges.

"We are always dealing with a workface that is small, that is a long way away, and that you can never touch. But well engineers do relate to that and remain flexible and agile to address the ever changing conditions."

Ali Young
Drilling Superintendent – Aberdeen

Creativity

Creativity and innovation to embrace new ideas and deliver solutions differentiates EnQuest from its peers. They result in a motivated workforce with greater self-confidence, pride and self-management.

"We have a diverse knowledge across the team, so we use that knowledge to be creative in coming up with solutions. The creativity that comes from designing wells right through to drilling and execution can be huge."

Vas Anastasiadis
IT Systems Analyst – London

Passion

EnQuest is a passionate, enthusiastic and committed organisation. Individuals and teams inspire others and create a catalyst with positive impact on the organisation and projects.

"The variety of IT projects that we are handling in EnQuest at the moment is something that excites me and makes me want to come to work every day."

Richard Hall
General Manager, International – London

Collaboration

In EnQuest we take on challenges and find solutions through mutual trust, knowledge sharing and teamwork.

"People from a range of different disciplines and teams across EnQuest worked on the Sabah transaction in Malaysia, our first international project. It was a truly collaborative effort and I expect it to prove typical of how we work together on other international projects. Having established a presence in Norway and Malaysia, collaboration between our international offices and London and Aberdeen will be central to our future success."

Iain Kellock
Graduate Quantity Surveyor – Hamburg

Empowerment

EnQuest recognises that an empowered workforce is fundamental to its success. By clearly defining each role, our people are encouraged to be accountable and responsible, and entrusted to take ownership of decisions and appropriate actions.

"As a young engineer only months into the job I definitely feel empowered. It gives me great confidence to deal with the packages of work I've been given to deal with."

To view our values video in full please visit our website **www.enquest.com**

–BOARD OF DIRECTORS

Dr James Buckee
Chairman
James Buckee holds a BSc Honours degree in Physics and a PhD in Astrophysics. Between 1971 and 1987, James held various petroleum engineering positions with Shell International, Burma Oil and BP, London. In 1987 James was appointed as operations manager for BP Norway, and thereafter vice-president, development programmes, for BP Alaska. In 1989 James returned to the UK as manager, planning, for BP Exploration. In 1991 he was appointed president and chief operating officer of BP Canada Inc. and in 1993 as president and chief executive officer of Talisman Energy Inc. (formerly BP Canada). James retired from Talisman Energy Inc. in 2007. James was appointed as Non-Executive Chairman of EnQuest PLC in 2010, and chairs the Nomination Committee. James also serves as a non-executive director on the board of Cairn Energy PLC, Rodinia Oil Corp., PetroFrontier Corp., Magma Global and Black Swan Energy. James is also on the advisory board of KERN partners.

Amjad Bseisu
Chief Executive
Amjad holds a BSc Honours degree in Mechanical Engineering and an MSc and D.ENG degree in Aeronautical Engineering. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), eventually becoming president of ARCO Petroleum Ventures and ARCO Crude Trading Inc. In 1998 Amjad founded the operations and investment business for Petrofac Limited and was the chief executive officer of Petrofac Energy Developments International Limited. In 2010 Amjad formed EnQuest PLC and was appointed as Chief Executive. Previously Amjad was a founding non-executive director of Serica Energy plc and Stratic Energy Corporation. Amjad is also non-executive chairman of Enviromena Power Systems, a private company and the leading developer of solar services in the Middle East.

Jonathan Swinney
Chief Financial Officer
Jonathan qualified as a chartered accountant with Arthur Andersen in 1992 and is a member of the Institute of Chartered Accountants of England and Wales. Jonathan qualified as a solicitor in 1997 and trained at Cameron McKenna, joining the acquisition finance team upon qualification. In 1998 Jonathan joined Credit Suisse First Boston working within the corporate broking team. Jonathan later moved to Lehman Brothers advising on a wide range of transactions and in 2006 he became a managing director within the corporate broking team. Jonathan joined Petrofac Limited in April 2008 as head of mergers and acquisitions for the Petrofac Group. Jonathan left Petrofac Limited to join EnQuest PLC in 2010 when he was appointed to the Board.

Helmut Langanger
Senior Non-Executive Director
Helmut Langanger holds an MSc degree in Petroleum Engineering and an MA in Economics. Between 1974 and 2010, Helmut was employed by OMV, Austria where he was a reservoir engineer until 1980. From 1981 to 1985, Helmut was an evaluation engineer for the technical and economic assessment of international E&P ventures, and from 1985 to 1989 he held the position of vice-president, planning and economics for E&P and natural gas projects. In 1989 Helmut was appointed as senior vice-president of international E&P and in 1992 became senior vice-president of E&P for OMV's global operations. From 2002 Helmut had been the group executive vice-president for E&P, OMV until he retired in 2010. In 2010 Helmut was appointed to the Board of EnQuest PLC and sits on the Audit and Nomination Committees and chairs the Remuneration Committee. Helmut is also a non-executive director of the boards of Schoeller Bleckmann Oilfield Equipment A.G. (Austria), Kulczyk Oil Ventures Inc. (Poland) and MND (Czech Republic).

Dr Philip Nolan
Non-Executive Director
Phil Nolan holds both a BSc and a PhD in Geology and has an MBA from the London Business School. Phil has held a number of senior positions in the oil and gas sector including serving as an executive director of BG Group plc and as chief executive officer of Transco. Prior to this Phil was head of acquisitions and disposals at BP Exploration and managing director of Interconnector (UK) Ltd. Phil was CEO of Eircom, Ireland's national telecommunications supplier from 2002 to 2006 and is currently non-executive chairman of John Laing plc and the Irish Management Institute. Phil also serves as a non-executive director at Ulster Bank Ltd and at Providence Resources Plc. In 2012 Phil was appointed to the Board of EnQuest PLC and sits on the Audit, Remuneration and Nomination Committees.

Jock Lennox
Non-Executive Director
Jock Lennox holds a Law degree and in 1980 qualified as a chartered accountant with Ernst & Young LLP, Edinburgh. In 1988 Jock became a partner at Ernst & Young LLP, London, and retired in 2009. In 2010 Jock was appointed to the Board of EnQuest PLC and sits on the Nomination and Remuneration Committees and chairs the Audit Committee. Jock is a non-executive director of Dixons Retail plc, Hill & Smith Holdings plc, A&J Mucklow Group plc, and Oxford Instruments plc. Jock is also a trustee of the Tall Ships Youth Trust.

Clare Spottiswoode
Non-Executive Director
Clare Spottiswoode holds an M.Phil degree in Economics and an MA in Mathematics and Economics. Clare began her career in the Treasury before starting her own software company. Between 1993 and 1998 she was also director general of Ofgas, the UK gas regulator. From 2002 to 2011 Clare was a non-executive director of Tullow Oil plc. Currently, Clare is non-executive chairman of Gas Strategies Group Limited and is also a non-executive director of G4S plc, Ilika plc, EnergySolutions Inc., Severn Energy International Limited and The Royal Bank of Canada Europe. Clare is also an independent director of the Payments Council. Clare was appointed to the Board of EnQuest PLC in 2011 and sits on the Audit, Nomination and Remuneration Committees.

–SENIOR MANAGEMENT

Nigel Hares
Co-founder and Strategic Adviser
From 1972 to 1994, Nigel worked for BP in the UK, Abu Dhabi, Norway and Alaska. At BP, Nigel's roles included those of drilling, petroleum, reservoir, well-site, and offshore production engineer. Nigel also held positions of production and pipeline superintendent, manager of petroleum engineering, manager of reservoir studies for Middle East, Europe and Africa and business advisor, developing global gas strategies for BP. Nigel then moved to Talisman Energy Inc. as executive vice-president, international operations, heading international operations for the UK, Norway, Netherlands, Algeria, Sudan, Malaysia, Indonesia, Vietnam, Peru, Colombia and Trinidad. In 2010 Nigel joined EnQuest PLC. Nigel stepped down from the Board at the end of 2012.

David Heslop
General Manager UKCS
David Heslop graduated with a BSc in Aeronautical Engineering and subsequently gained an MSc in Petroleum Engineering. David was initially a wireline engineer at Schlumberger, working in the Middle East, before moving to Mobil Oil where amongst other roles, he was the development manager responsible for exploration, development and reservoir management activities for over 50 fields in Continental Europe. Prior to joining EnQuest in June 2011, David was at Talisman Energy where his roles included: vice president, wells; vice president of the Greater Fulmar area; and subsurface manager.

Andrew Thomson
General Manager Technical
Andrew Thomson has a Masters degree in Petroleum Engineering and a wealth of experience working as a petroleum, reservoir and operations engineer. Andrew first worked for Schlumberger and spent seven years working for Britoil and BP. In 1990 Andrew co-founded RML where he was managing director, then Senergy in 2005, where he held roles as CFO and then CEO of Senergy Investments. Andrew is a 'Competent Person' in reserves reporting and is a chartered engineer. Andrew joined EnQuest in October 2010, having supported the formation of EnQuest as a consultant. His primary responsibilities are technical quality assurance, reserves, exploration, pre-developments, business development and functional subsurface co-ordinator, reporting directly to the CEO.

Tim Bradbury
Deputy General Manager UKCS
Tim Bradbury has an Honours degree in Chemical Engineering and began his career as a process engineer at Grangemouth Refinery before moving onto a variety of onshore and offshore engineering positions on the BP Forties field. After three years as petroleum engineering manager in Indonesia, he went on to manage the technical and commercial issues of Southern North Sea gas fields, then the commissioning and early operation of the first hydrocarbon development in Papua New Guinea. Tim then moved to Abu Dhabi for three years as safety manager, and then to Alaska as operations manager of Prudhoe Bay. In 1999 Tim returned to Aberdeen to manage the Forties field and then joined the BP petrochemicals business, first as manufacturing manager at a PTA plant in South Carolina and then as logistics director for BP Chemicals in Europe. Following that Tim joined the Ineos Polymers business, first as supply chain director and subsequently became their European manufacturing director, before joining EnQuest in early 2011.

Graham Cooper
Head of Business Development

Graham Cooper graduated from Cambridge University with a Masters in Natural Sciences and then worked as a wireline logging engineer before joining Conoco in 1982 as a geologist and petrophysicist. During his time at Conoco, Graham held a number of technical roles, both in the UK and Dubai, before moving into various commercial roles. In 1999, Graham joined Shell UK as new business development manager in Aberdeen and subsequently moved to The Hague in 2005 to take up the role of vice-president commercial for global exploration. Graham latterly became head of Shell's commercial academy, before joining EnQuest in October 2010.

Faysal Hamza
Head of Strategy & Corporate Development

Faysal Hamza has an MBA from Georgetown University in Washington and over 23 years of experience in oil and gas finance, business development and private equity. Faysal joined EnQuest in 2011 and prior to that was managing director, private equity at Swicorp, a financial firm operating in the Middle East and North Africa. Faysal has also held roles as senior executive at Arab Petroleum Investment Corporation (APICORP), group business development manager with the Alturki Group in Saudi Arabia, and management positions at Arco International Oil & Gas Company (ARCO) in the US, Saudi International Bank in London and the Saudi Arabian Oil Company (Saudi Aramco).

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

John Atkinson
Head of HSE&A

John Atkinson's career in the industry spans a variety of on and offshore engineering, maintenance and operational roles. He was a commissioning engineer for Taylor Instruments before moving into an offshore role as instrument engineer for Shell's North Sea assets. John subsequently became operations superintendent at Amerada Hess, followed by a period as maintenance manager. At Petrofac John was a field manager prior to moving to Lundin Britain where his roles included operations manager, business delivery manager and Heather asset manager. John joined EnQuest PLC in 2010 and moved into the role of Head of HSE&A in 2011.

Craig Matthew
New Developments Manager

Craig Matthew graduated with an Honours degree in Civil Engineering and has over 20 years of field development, project management, engineering and construction experience. Initially Craig spent 10 years working for Stena in a variety of subsea roles whilst also completing a Post Graduate Certificate in Project Management. Craig then joined Kerr-McGee as subsea manager, eventually becoming project manager for the Dumbarton field development. Craig became part of EnQuest via Petrofac Energy Developments, after joining them as project manager for the Dons area development.

Stefan Ricketts
General Counsel

Stefan Ricketts joined EnQuest in 2012 and is responsible for all legal and Company secretarial matters. Prior to joining EnQuest, Stefan was a partner at Fulbright & Jaworski, LLP heading its energy and natural resources practice in the Asia-Pacific region. He had previously been general counsel at BG Group plc. Stefan, whose early career as a solicitor was with Herbert Smith, has significant experience as a lawyer and in management working across the energy chain and in all phases of project development and operations. In previous roles he has been based in London, Paris, Dubai, Jakarta, Singapore and Hong Kong.

Human Resources ('HR')

Graeme Cook
HR Director

Graeme holds an MA in Accountancy and Economics from the University of Dundee and has over 20 years' experience in both finance and HR leadership roles. Graeme's early career was spent predominantly with Schlumberger in the UK, Africa, Middle East and Asia. Graeme returned to the UK in 2004 and was appointed as HR director for BG Group's Mediterranean basin and Africa region. Prior to joining EnQuest in April 2011, Graeme was group head of talent and leadership for Legal & General PLC, where he was accountable for the resourcing, performance management, succession and development of the leadership group of this City institution.

DIRECTORS' REPORT

The Directors of EnQuest PLC (registered in England & Wales with Company No. 7140891) present their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2012. These will be laid before shareholders at the AGM to be held on Wednesday 29 May 2013.

Principal activities

The principal activities of the Group are oil and gas development and production with its main focus on the UKCS. EnQuest's principal assets at the end of 2012 were its interests in the Heather/Broom, Thistle/Deveron, West Don, Don Southwest and Conrie producing oil fields, the Alma and Galia development, and further development opportunities in the Southwest Heather, Peik, Crawford/Porter, Cairngorm, Crathes/Scolty/Torphins, Kildrummy and Kraken discoveries. Further afield EnQuest also has a development opportunity in the Bambazon oil discovery in Malaysia. The Group operates through a number of principal subsidiaries which are set out in note 28 of the financial statements on page 92.

Business Review

The Business Review includes the financial performance during the financial year, future developments, performance of the Group and principal risks and uncertainties facing the Group. A review of the business is incorporated by reference, forming part of this Directors' Report and further information can be found in the following sections below:

- Chairman's Statement on pages 14 and 15;
- Chief Executive's Report on pages 16 to 21;
- Operating Review on pages 24 to 31;
- Financial Review on pages 32 to 37;
- Key Performance Indicators on page 36; and
- Corporate Social Responsibility Review on pages 38 and 39.

The Company's 'forward looking statements' form part of the Business Review on pages 14 to 39.

Corporate governance statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rules (DTR) 7.2.1, the disclosures required by DTR 7.2.2 and DTR 7.2.7 may be found in the Corporate Governance Report on pages 49 to 53.

Results and dividends

The Group's financial statements for the year ended 31 December 2012 are set out on pages 60 to 100.

The Company has not declared or paid any dividends since incorporation on 29 January 2010 and does not have current intentions to pay dividends in the near future. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board of Directors of the Company consider appropriate.

Directors

The Directors' biographical details are set out on pages 42 and 43. All of the current Directors served throughout the year, except for Alexandre Schneiter and Nigel Hares who served as Directors until 30 May 2012 and 9 November 2012 respectively and Phil Nolan, who was appointed with effect from 1 August 2012.

All the Directors will offer themselves for re-election at the Annual General Meeting (AGM) on 29 May 2013, in accordance with the UK Corporate Governance Code provision for annual re-election of all directors of FTSE 350 companies.

Directors' interests

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

Name	At 31 December 2011 or appointment date	At 31 December 2012	26 March 2013
Amjad Bseisu[1]	70,142,289	70,797,182	70,797,182
Dr James Buckee	691,370	868,107	868,107
Nigel Hares[2]	3,455,000	N/A	N/A
Helmut Langanger	0	0	0
Jock Lennox	20,000	20,000	20,000
Phil Nolan	0	0	0
Alexandre Schneiter[3]	400,000	N/A	N/A
Clare Spottiswoode	0	0	0
Jonathan Swinney	62,033	62,033	62,033

Notes:
1 The shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest.
2 Nigel Hares served as a Director until 9 November 2012.
3 Alexandre Schneiter served as a Director until 30 May 2012.

Directors' indemnity provisions

Under the Company's Articles, the Directors of the Company maybe indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities sustained or incurred in or about the execution of their duties. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Share capital

The Company's share capital during the year consisted of Ordinary shares of £0.05 each (Ordinary shares). Each Ordinary share carries one vote. There were 802,660,757 Ordinary shares in issue at the end of the year (2011: 802,660,757). All of the Company's issued Ordinary shares have been fully paid up. Further information regarding the rights attaching to the Company's Ordinary shares can be found in note 18 to the financial statements on page 83. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2012 or up to and including 25 March 2013, being the date of this Directors' Report.

Company share schemes

Between September 2012 and December 2012, the trustees of the Group Employee Benefit Trust (the 'Trust') purchased 5,710,188 Ordinary shares to satisfy future employee share awards. At year end, the Trust held 2.85% of the issued share capital of the Company (2011: 2.27%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

Substantial interests in shares

In accordance with Chapter 5 of the DTR, the shareholders listed on the following table have notified the Company of their interests in the Ordinary shares of the Company as at the dates shown below:

Name	Number of Ordinary shares held at 31 December 2012	% of issued share capital held at 31 December 2012	Number of Ordinary shares held at 26 March 2013	% of issued share capital held at 26 March 2013
Amjad Bseisu and family[1]	70,797,182	8.82%	70,797,182	8.82%
Baillie Gifford & Co	62,244,543	7.75%	62,726,961	7.81%
Swedbank Robur Asset Management	59,098,399	7.36%	59,069,701	7.36%
Montanaro Investment Managers Limited	32,354,249	4.03%	32,354,249	4.03%
Acadian Asset Management	26,395,592	3.16%	24,865,541	3.10%

Notes:
1 The shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest.

Acquisitions and disposals

On 31 January 2012, the Company completed the acquisition of two companies from Canamens Limited, whose assets include the 20% interest in the Kraken oil discovery, for an initial consideration of US$45 million and a contingent consideration of US$45 million dependent upon approval of the Kraken Field Development Plan by the Department of Energy and Climate Change.

In March 2012, the Company announced that it had agreed to acquire an additional 18.5% interest in West Don from JX Nippon Exploration and Production (UK) Limited for a cash consideration of US$34 million. This acquisition, which includes US$2 million of tax allowances, takes EnQuest's holding in West Don to 63.5%.

On 16 March 2012, the Company announced the completion of the acquisition of a further 25% of the Kraken discovery, together with interests in the surrounding exploration acreage, from Nautical Petroleum plc and Nautical AG.

On 29 May 2012, the Company announced an agreement to farm out 35% of Alma and Galia to the Kuwait Foreign Petroleum Exploration Company.

On 14 September 2012, the Company announced the completion of the acquisition of a third tranche of the Kraken discovery, representing a 15% interest from First Oil plc. This acquisition brought the Company's overall interest in the Kraken discovery to 60%.

On 20 September 2012, the Company acquired Nio Petroleum (Sabah) Limited from Nio Petroleum Limited for an initial cash consideration of US$3 million, plus a further contingent consideration of up to US$20 million, which will be determined based on 2P reserves associated with an approved Field Development Plan on Blocks SB307 and SB308 offshore in Sabah, Malaysia.

On 23 January 2013, the Company announced that EnQuest Britain Limited (a wholly owned subsidiary of the Company) had agreed with CIECO Energy (UK) Limited to acquire two of its affiliate companies which together hold a total of an 8% non-operated interest in the producing oil field Alba, in the UK Continental Shelf. The acquisition completed on 22 March 2013, with consideration, net of cash acquired, totalling US$29.7 million plus a further deferred cash consideration of up to US$0.8 million contingent on certain project milestones.

In December 2012, the Company agreed the disposal of a Dutch asset, licence P8 (Horizon West) to Van Dyke Energy for US$3 million initial cash consideration, plus US$3 million contingent on future production.

Annual General Meeting

The Company's AGM will be held at Sofitel London St James Hotel, 6 Waterloo Place, London SW1Y 4AN on 29 May 2013. Formal notice of the AGM, including details of special business, is set out in the Notice of AGM which accompanies this Annual Report and Accounts and is available on the Company's website at www.enquest.com.

Registrars

In connection with the Ordinary shares traded on the London Stock Exchange, the Company's share registrar is Capita Registrars. For the Ordinary shares traded on NASDAQ OMX Stockholm the Company's share registrar is Euroclear Sweden. Full details of both registrars can be found in the Company Information section on page 101.

Creditors' payment policy

It is the Company and Group's policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier. Average creditor payment days for the year under review were approximately 41 days (2011: 34 days).

Political and charitable donations

The Company made charitable, social and community-related donations totalling US$48,346 during the year (2011: US$62,674). No political donations were made during the year (2011: nil).

Change of control agreements

The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid, except in respect of: (a) the Revolving Credit Facility Agreement, which includes provisions that, upon a change of control, permit each lender not to provide certain funding under that facility and to cancel its exposure to credit which may already have been advanced to the Company; and (b) the Company's Euro Medium Term Note Programme (under which the Company currently has in issue euro medium term notes with an aggregate nominal amount of £145 million), pursuant to which if there is a change of control of the Company, a holder of a note has the option to require the Company to redeem such note at its principal amount, together with any accrued interest thereon. See page 57 of the Remuneration Report for details of compensation which the Directors are entitled to in the event of a change of control.

DIRECTORS' REPORT CONTINUED

Important events subsequent to the year end

Events since the balance sheet date are summarised in note 27 to the financial statements on page 92.

Directors' statement as to disclosure of information to auditors

The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Responsibility statements under the DTR

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

Audit and auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed. Ernst & Young LLP has expressed their willingness to continue as auditors. An ordinary resolution to reappoint Ernst & Young LLP as auditors of the Company and authorising the Directors to set their remuneration will be proposed at the forthcoming AGM.

Financial risk and financial instruments

Information on financial risk management, including credit and liquidity risks and information about financial instruments, is set out in the Financial Review on pages 32 to 37 and the notes to the financial statements on pages 66 to 92 respectively.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 41. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 32 to 37. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with 2P reserves of 128.5 MMboe. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board on 26 March 2013.

Paul Waters
Company Secretary

CORPORATE GOVERNANCE REPORT

Chairman's introduction

Dear Shareholder

Your Board is committed to maintaining high standards of corporate governance. As the Company continues to grow both operationally and geographically, your Board recognises the challenge to ensure that we have in place the right people and processes to manage risk and opportunity effectively.

I have set out below my statement of how the Company has applied the principles of the 2010 UK Governance Code (the Code) for the year ended 31 December 2012. It is the Board's view that the Company has complied with the Code throughout 2012, except where reported below.

The Board

The role of the Board

The Board has a formal schedule of matters specifically reserved to it for decision, which has been approved by the Board. Its reserved matters include determination of the overall strategy of the Group, to review business plans and trading performance, to approve major capital investment projects, examine acquisition opportunities and divestment possibilities, review significant financial and operational issues, and review and approve the Company's financial statements, control and risk management systems.

The Board delegates the execution of its strategic objectives to the Executive Committee, which supports the Chief Executive in the discharge of his role and responsibilities. Operational management of the Group on a day-to-day basis is managed by the Operational Committee, which comprises members of the Executive Committee, Asset Managers and selected Senior Management.

Board composition

The Board of Directors comprises the Chairman, the Chief Executive, the Chief Financial Officer and four Non-Executive Directors. The biographical details of each are set out on pages 42 and 43. Alexandre Schneiter served as a Non-Executive Director during part of the year, and retired at the AGM held on 30 May 2012. The Board appointed a new Independent Non-Executive Director, Phil Nolan, with effect from 1 August 2012. Nigel Hares who served as an Executive Director stood down from the Board on 9 November 2012.

Chairman and Chief Executive

The Chairman is a Non-Executive Director. His key responsibility is the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting the agenda. The Chief Executive's role is the operational management of the business, developing strategy in consultation with the Board and then implementing such strategy. The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board.

The Board has full and timely access to all relevant information to enable it to perform its duties. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. In addition, each Director has access to the advice and services of the Company Secretary. There is also a procedure agreed by the Board, in furtherance of the duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

Non-Executive Directors

The Non-Executive Directors bring independent judgement to bear on issues of strategy and resources, and independently challenge and constructively comment on the performance of key business objectives and targets.

Senior Independent Non-Executive Director

Helmut Langanger continues to be the Senior Independent Non-Executive Director. The main responsibilities for the Senior Independent Non-Executive Director are as follows:

- to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman, Chief Executive or the Chief Financial Officer;
- to provide a sounding board for the Chairman and to serve as an intermediary with other Directors when necessary; and
- to meet with the other Non-Executive Directors without the Chairman present at least annually in order to evaluate the performance of the Chairman.

Board diversity

The Board is aware of the provisions of the Governance Code and has due regard for the benefits of diversity, including gender, on the Board.

Conflicts of interest

The Board has in place a procedure for the consideration and authorisation of conflicts or possible conflicts with the Company's interests. In accordance with the directors' interests provisions in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. The Board monitors and reviews potential conflicts of interest on a regular basis.

How the Board operates

During 2012, six scheduled meetings of the Board were held, four of which were held at the Company's registered office in London, one meeting was held at the Company's Aberdeen office, and one meeting held offsite. Details of attendance at each of those meetings, and at meetings of the Board Committees, are set out in the table on page 50.

During the year, a number of other meetings took place to deal with specific matters that required consideration at short notice, and in each case, notice was duly given to all the Directors. Any Director who is unable to attend scheduled or short notice Board meetings in person is invited to join the meeting by video or telephone conferencing facilities, or is given the opportunity to be consulted and comment in advance of the meeting by telephone or in writing.

The formal agenda for each scheduled Board meeting is drawn up by the Company Secretary in consultation with the Chairman and with agreement from the Chief Executive. Formal minutes of all Board and Committee meetings are circulated to all Directors prior to the next Board meeting and are considered for approval at that Board meeting. In addition, the Chief Executive is in frequent contact with the Non-Executive Directors between meetings in order to keep them updated with progress on the Group's business. The Chairman also meets the Non-Executive Directors informally, without any executives present, to discuss matters in respect of the business.

CORPORATE GOVERNANCE REPORT CONTINUED

Directors' attendance at Board and Board Committee meetings

The table below sets out the attendance record of each Director at scheduled Board and Board Committee meetings during 2012:

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held in 2012	6	3	3	1
Executive Directors				
Amjad Bseisu[1]	6	n/a	n/a	1
Nigel Hares[2]	4	n/a	n/a	n/a
Jonathan Swinney[1]	6	n/a	n/a	n/a
Non-Executive Directors				
Dr James Buckee[1]	6	n/a	n/a	1
Helmut Langanger	6	3	3	1
Jock Lennox	6	3	3	1
Phil Nolan[3]	2	1	2	0
Alexandre Schneiter[4]	3	n/a	n/a	n/a
Clare Spottiswoode	6	3	3	1

Notes:
n/a not applicable where a Director is not a member of the Committee.
1 On occasion Amjad Bseisu, Jonathan Swinney and Jim Buckee have attended Committee meetings by invitation. These details have not been included on the table.
2 Nigel Hares stood down as a Director on 9 November 2012. The number of meetings attended is stated up to and including that date.
3 With effect from 1 August 2012, Phil Nolan was appointed as a Non-Executive Director and member of the Audit, Nomination and Remuneration Committees. The number of meetings attended is stated with effect from that date.
4 Alexandre Schneiter retired as a Director at the AGM held on 30 May 2012. The number of meetings attended is stated up to and including that date.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which has formal terms of reference approved by the Board. The terms of reference for each of these Committees satisfy the requirements of the Governance Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference are available on the Company's website.

The Committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the Committees and minutes of all Committee meetings are available to all Directors.

Set out below are reports from the Audit Committee, Remuneration Committee and Nomination Committee.

Audit Committee

The Audit Committee currently comprises four Non-Executive Directors, all of whom are considered by the Board to be independent and have recent and relevant financial experience.

The members of the Audit Committee during the year were as follows:

- Jock Lennox (Chairman)
- Helmut Langanger
- Phil Nolan (joined the Committee on 1 August 2012)
- Clare Spottiswoode

The Audit Committee met three times in 2012. At the request of the Audit Committee, the Chief Financial Officer and a senior member of the finance department attended each of these meetings. The Chief Executive and Chairman also attended the meetings when invited to do so by the Committee. In addition, all three meetings were attended by the external auditors, who receive copies of all the Audit Committee papers. Deloitte, in their role as internal auditors, attended as appropriate. The Chairman of the Committee regularly meets with the external audit partner and the internal audit partner to discuss matters relevant to the Company.

The main responsibilities of the Audit Committee include:

- monitoring the integrity of the financial statements, including annual and interim reports and any other formal announcement relating to the Company's financial performance;
- monitoring and reviewing the process of audit of the Group's proven and probable reserves by a recognised Competent Person;
- monitoring and reviewing the Company's internal control procedures and risk management systems;
- monitoring and reviewing the effectiveness of the external and internal audit activities;
- making recommendations to the Board on the appointment, review and removal of external auditors;
- monitoring whether any calls had been made to the externally facilitated whistle-blowing line;
- establishing the external auditors' remuneration;
- monitoring the external auditors' independence;
- monitoring the policy on external auditors' non-audit services; and
- identifying any matters in respect of which it considers that action or improvement is needed and making recommendations to the Board as to the steps to be taken.

In fulfilling its responsibility to monitor the integrity of financial reports to shareholders, the Audit Committee reviewed the accounting principles, policies and practices adopted in the presentation of public financial information.

During the year under review, the Group's half year financial report and full year Annual Report were reviewed by the Audit Committee before recommending publication to the Board. In carrying out this review the Committee received reports from, and held discussions with management and the external auditors. The key financial reporting issues considered during the year focused on how management had applied the critical accounting estimates and judgements. This included key assumptions regarding decommissioning cost estimates, the results of goodwill and asset impairment testing, including key assumptions such as oil price forecasts and discount rates, the appropriateness of the carrying value of intangibles, and taxation.

In addition, the Committee considered the results of the internal audits conducted during the year, the feedback on internal controls provided by the external auditors, and the Group's approach to estimating oil and gas reserves and their audit by a recognised Competent Person.

The Committee held private meetings with the external auditors without management present. These meetings provided the opportunity for direct feedback and discussion between the Committee and the external auditors. The Committee also considered the performance of the external auditor and internal audit and the effectiveness of its own performance. Various improvements were identified and adopted.

In its role of monitoring and approving the level and type of non-audit services to be delivered by the external auditor, the Committee had regard to consideration whether through its knowledge of specific transactions, the external auditor was best placed to deliver various services to the Group. Assessment of the continuing independence of the external auditor was also undertaken. As a result of these considerations a number of projects were approved to be performed by the external auditors during the year and a number were not. It is the policy that the Group has relationships with a number of service providers that can provide similar services to the external auditors. Further details on the Group's policy on the use of the external auditors to provide non-audit services, on auditor independence, and on how the Committee assesses the independence and objectivity of the external auditors is provided on page 53.

Each year, the internal audit plan for the following year is co-developed with Deloitte, based on a review of the significant risks identified by the Group, discussion with senior management and with the Audit Committee. The internal audits performed during 2012 were selected to address risks associated with the rapid expansion of the Group. The specific areas of focus were the Group's procurement and payment processes for new developments; the cost monitoring process for major projects; human resource management, and management reporting. A follow up review of the results of the 2011 internal audits was also conducted. Where issues were identified during these audits, the Committee satisfied itself that appropriate action was being taken by management to address the findings. The approach to internal audit will be considered again in 2013 and its link with other aspects of risk management assurance that are conducted in the Group.

In 2012 the Group updated its Code of Conduct policy, which all employees and contractors are required to comply with, by augmenting its sections on business ethics, in particular to reflect the Company's Charity Policy and keeping in view the impact of the UK Bribery Act.

Remuneration Committee

The Remuneration Committee currently comprises four Non-Executive Directors, all of whom are considered by the Board to be independent.

The members of the Remuneration Committee during the year were as follows:
- Helmut Langanger (Chairman)
- Jock Lennox
- Phil Nolan (joined the Committee on 1 August 2012)
- Clare Spottiswoode

The Remuneration Committee met three times in 2012. The Chief Executive and Chairman also attended the meetings when invited to do so by the Committee. The Chief Executive did not participate in any discussions relating to his own remuneration.

The main responsibilities of the Remuneration Committee include:
- setting the remuneration policy for the Chairman, Executive Directors and Senior Executives;
- assessing and determining total compensation packages available to the Executive and Non-Executive Directors;
- monitoring the remuneration of senior management other than the Executive Directors whose remuneration it sets;
- making recommendations to the Board for its approval, and that of shareholders, on the design of long term share incentive plans and making recommendations for the grant of awards to executives under such plans; and
- determining policy and scope for pension rights and any compensation payments and ensuring compliance with the Governance Code in this respect.

Further information on the Remuneration Committee can be found in the Remuneration Report on pages 54 to 57.

Nomination Committee

The Nomination Committee currently comprises the Chairman, four Independent Non-Executive Directors and, to ensure input from the Executive, the Chief Executive.

The members of the Nomination Committee during the year were as follows:
- Dr James Buckee (Chairman)
- Helmut Langanger
- Jock Lennox
- Phil Nolan (joined the Committee on 1 August 2012)
- Clare Spottiswoode
- Amjad Bseisu

The main responsibilities of the Nomination Committee include:
- reviewing the size, structure and composition of the Board in order to recommend changes to the Board and to ensure the orderly succession of Directors;
- formalising succession planning and the process for new Director appointments;
- identifying, evaluating and recommending candidates for appointment or reappointment as Directors or as Company Secretary, taking into account the balance of knowledge, skills and experience required to serve the Board; and
- reviewing the outside directorships/commitments of Non-Executive Directors.

CORPORATE GOVERNANCE REPORT CONTINUED

The Nomination Committee met once in 2012, in order to deal with the appointment of Phil Nolan as a Non-Executive Director of the Company. The following procedure was followed in respect of this appointment:

The Committee evaluated the balance of skills, knowledge and experience of the Board with a view to identifying any gaps in the skill set of the Board and also where gaps would exist following Alexandre Schneiter standing down as a Director at the 2012 AGM. The Committee then decided to conduct a search for a new Non-Executive Director with a commercial and/or financial background and with relevant oil and gas sector experience. The Committee instructed Heidrick & Struggles, an independent executive search firm, to conduct the search, from which a list of candidates was provided to the Chairman and Chief Executive. Following this, a shortlist was prepared and candidates were first interviewed by the Chairman and Chief Executive, and the preferred candidates were interviewed again by other members of the Committee and the Executive Directors.

This process identified Phil Nolan as the preferred candidate based on his business and commercial skills and his experience of the oil and gas sector (his biographical details are set out on page 43). The Nomination Committee then recommended to the Board that Phil Nolan be appointed a Non-Executive Director of the Company and his proposed appointment was unanimously approved by the Board. Consequently, Phil was appointed with effect from 1 August 2012, and at the same time was appointed a member of the Company's Audit, Nomination and Remuneration Committees.

The Board and Nomination Committee are satisfied that the individuals currently fulfilling key senior management positions in the Group have the requisite depth and breadth of skills, knowledge and experience to ensure that orderly succession to the Board and Executive Committee can take place.

Board performance evaluation

At the end of 2012, the Board appointed Consilium Board Review, an independent external facilitator, to conduct a Board evaluation review. The process consisted of a questionnaire, one-to-one structured interviews with each Director and selected senior management, and a full Board discussion of the conclusions and recommendations. The external facilitator also dealt with the evaluation of the Chairman, by having a separate discussion with the Senior Independent Director.

The evaluation showed that we are building from a strong base, with an informal, engaged and supportive working climate on the Board, coupled with a healthy level of challenge and debate. Relations between Executive Directors and Non-Executive Directors are good and there is a strong degree of alignment on the areas requiring attention over the coming year as part of the Board's commitment to continuous improvement.

The agreed action points from the 2012 Board evaluation review, against which progress will be disclosed in EnQuest's 2013 Annual Report, are set out in summary below:

- the Board Agenda to be more streamlined, by separating reports for discussion/information against reports that require Board approval;
- Board approval reports to provide executive summaries; and
- a 12 month rolling agenda to be prepared to ensure that the Board addresses all of the key issues throughout the year.

Induction, information and support

New Directors receive a full induction following their appointment, covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its Committees and the latest financial information about the Group.

The Chairman ensures that Directors update their skills, knowledge and familiarity with the Company in order to fulfil their roles on the Board and on Board Committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the Listing Rules, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board.

Internal controls

The Company's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against misstatement or loss. The Board will continue to review and improve the system of internal controls.

The Board recognises the need for effective internal controls and for evaluating and managing the risks of the Company. Such matters are brought to the attention of the Board at its formal Board meetings or ad hoc discussions.

High level controls in operation include:

- review of management accounts with comparison of actual performance against prior periods and budget;
- approval of orders, authorisation of invoices and the requirement of two signatures to make a transfer from the principal bank accounts;
- reconciliation of control accounts;
- prior approval by the Board for major investments;
- segregation of duties between relevant functions and departments; and
- major capital projects are managed through a stage gate process, which is subject to peer review at each stage gate. Additionally, cash flow forecasts are presented to the Board throughout the process.

The Board has ensured that the process for identifying, evaluating and managing the significant risks faced by the Group accords with the Turnbull Guidance, and that the process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

The Board is aware of the need to conduct regular risk assessments to identify any deficiencies in the controls currently operating over all aspects of the Group. The Board reviews the business risk register at each meeting and monitors the assessment of risk and the action required for each risk area.

The financial reporting procedures were reviewed during the year, following which the Board was able to confirm that the financial reporting procedures established provided them with a reasonable basis on which to make proper judgements on the financial position and prospects of the Company on an ongoing basis.

Details of principal risk and uncertainties are discussed in the Business Review on pages 22 and 23.

Auditor independence

The Audit Committee and Board recognise the importance and objectivity of the Group's external auditors, Ernst & Young LLP, when performing their role in the Company's reporting to shareholders. The external auditors provide the Audit Committee with information about their policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and staff. Ernst & Young LLP confirmed their independence and objectivity.

During the year it was apparent that the fees for non-audit services were likely to exceed the audit fees. The Audit Committee received a request from management to engage the external auditors on certain tax projects. After considering other alternatives, management were of the opinion that the advice proposed by the external auditors provided the best options for EnQuest and its shareholders. The Audit Committee was satisfied that this process had been rigorous and that appropriate safeguards had been put in place to sustain the external auditors' independence. In addition, and before the tax projects commenced, the Chairman of the Audit Committee and the Chief Financial Officer met with shareholder bodies such as the Association of British Insurers specifically, during the financial year, to discuss non-audit services and auditor independence. Following this meeting, the Audit Committee approved the external auditors' engagement on the tax projects and adopted a revised policy in respect of the provision of non-audit services to the Company by the external auditor. This policy is available on the Company's website at www.enquest.com. Audit services fees payable to Ernst & Young LLP during 2012 amounted to $355,000 (2011: $263,000) and $965,000 (2011: $991,000) for non-audit services including tax advice on asset and corporate acquisitions.

Management, and the external auditors, provided the Audit Committee with details of the safeguards in place to ensure independence was maintained in respect of the non-audit services provided during 2012. The Audit Committee assessed these safeguards to be adequate.

The overall performance, independence and objectivity of the auditors is reviewed regularly by the Audit Committee. In addition to the procedures for assessing independence and objectivity described above, this process involves interviewing key members of the organisation who are involved in the audit process, on an annual basis, to obtain feedback as to the performance of the external auditors. Additionally, the Audit Committee members take into account their own view of the performance of Ernst & Young LLP when determining whether or not to recommend their reappointment.

Communication with shareholders

The Company has a very active investor relations programme through which the Chief Executive, the Chief Financial Officer, and senior management regularly meet with major shareholders. In 2012, numerous investor and broker sales meetings were held, presentations were made at international conferences and an investor field trip was held in Aberdeen, which together provided for comprehensive and engaging dialogue with shareholders and potential investors. The Company periodically arranges for formal surveys of investor opinion to be conducted, these are reported in full to the Board.

The Company issues its results and other news releases promptly and publishes them on the Company's website at www.enquest.com. Other corporate information issued during the year is also available on the website. Shareholders and other interested parties can subscribe to receive news updates by email by registering online on the website.

At the 2013 AGM, a business presentation will be provided for the benefit of shareholders. The Chairman will aim to ensure that the respective Chairmen of the Audit and Remuneration Committees attend the AGM to answer questions and that the other Directors also attend.

Compliance with the governance statement

The Company complied with the provisions of the Governance Code, except that for the financial period under review up to 1 August 2012, there was only an equal balance of Executive and Independent Non-Executive Directors who sat on the Board. Following the retirement of Alexandre Schneiter on 30 May 2012, and the appointment of Phil Nolan with effect from 1 August 2012 as an Independent Non-Executive Director, there became a greater number of independent Non-Executive Directors to Executive Directors, at which point full compliance with the provisions of the Governance Code was achieved.

On behalf of the Board

Dr James Buckee
Chairman of the Board
26 March 2013

REMUNERATION REPORT

Introduction

The Directors' Remuneration Report has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'regulations'). The report also meets the relevant requirements of the Financial Services Authority's Listing Rules and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration.

A resolution to approve the report will be put to shareholders at the AGM on 29 May 2013.

Information not subject to audit

Remuneration Committee

The Remuneration Committee is a formal Committee of the Board, and has powers delegated to it under the Company's Articles. Its terms of reference were formally adopted by the Board in March 2010, a copy of which is available on the Company's website. The primary purposes of the Remuneration Committee, as set out in its terms of reference, are to:

- recommend to the Board the broad policy in respect of senior management remuneration;
- ensure that the levels of remuneration are appropriate in order to encourage enhanced performance;
- approve the design and set the targets for any performance-related pay scheme;
- review the design of all share incentive plans before approval by the Board and shareholders, to monitor the application of the rules of such schemes and the overall aggregate amount of such awards; and
- set the remuneration of the Chairman, Executive Directors and senior management including annual cash bonus and share incentive arrangements.

The members of the Remuneration Committee up until the date of this report were Helmut Langanger (Chairman), Jock Lennox, Clare Spottiswoode and Phil Nolan. Phil Nolan was appointed onto the Remuneration Committee in August 2012. All members of the Remuneration Committee are considered by the Board to be independent as explained in the Corporate Governance Report on pages 49 to 53. The Chairman, Chief Executive, HR Director and the Company Secretary attend meetings of the Remuneration Committee by invitation but do not participate in any discussions that directly relate to their own remuneration.

Remuneration strategy – overview

REMUNERATION PHILOSOPHY	The combined remuneration components of the package are competitively placed so as to attract, retain and engage the most talented individuals who possess the attributes and values required to achieve the Company's objectives and deliver outstanding shareholder value.		
REMUNERATION DESIGN	Underpins the business strategy by gearing total remuneration toward both individual and corporate long term performance, whilst maintaining an overall reward level which is market competitive.		
PACKAGE ELEMENT	Basic salary, pensions and benefits.	Short term performance incentive.	Long term performance incentive.
OBJECTIVE	Recognise the value to the Company of the skill, knowledge, experience and performance an individual brings to the role and provide a market competitive package.	Drive and reward the annual performance of the individual, and therefore the Company, against corporate and personal objectives and KPIs.	Align performance to long term strategy and objectives and reward the delivery of sustained Company success and maximise the value of total shareholder return.
APPLICATION	Provide a market competitive level of remuneration, benchmarked against a comparator group within the oil and gas sector whose companies have a similar level of market capitalisation.	The achievement of challenging individual and corporate targets, set annually, and aligned to the Company strategy.	Maintained focus and vested interest in increasing the Company's share price performance over the medium to long term.

EnQuest's remuneration policy is geared towards the promotion of behaviour and performance throughout the organisation which promotes engagement with the long term growth and success of EnQuest. Fundamental to this is the requirement to deliver a level of reward which is sufficient to attract, retain and motivate highly talented individuals in an increasingly competitive global market. The Remuneration Committee believes that this approach is sustainable and will deliver results that are in the best interest of the shareholders.

In light of this objective, the EnQuest remuneration framework is focused on the key managerial, technical, commercial and professional staff populations, and underpinned by the following guiding principles:

- the remuneration framework should reflect EnQuest's focus on growth with the emphasis on ensuring sustainable long term growth;
- total reward should be competitive when compared to the benchmarked compensation levels of other UK oil and gas companies that are of a similar size to EnQuest; and
- the remuneration structure should be consistent with UK corporate governance principles and best practice.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Remuneration Committee will ensure that the incentive structure for Executive Directors and senior management does not raise environmental, social or governance risks by unintentionally motivating irresponsible behaviour. More generally, the Remuneration Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.

Within the framework, Executive Directors, senior management and key technical, commercial and professional staff are incentivised by having the various components of their package benchmarked as follows:

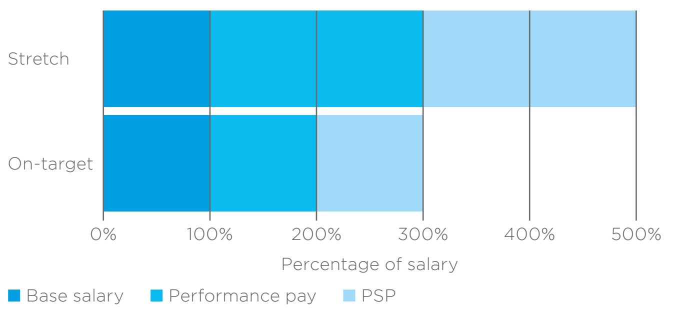
- basic salaries are typically set at a market median level or below, benchmarked against UK oil and gas companies of a similar size to EnQuest. In some circumstances upper quartile basic salaries may be offered to attract key technical staff in a competitive market; and
- the performance pay and share awards are set above the market median and are structured so that individuals can achieve a total remuneration level that is in the upper quartile range of the market, subject to the achievement of challenging performance objectives by both the Company and the individual.

The Remuneration Committee believes establishing a reward framework which sets the fixed elements at median or below and provides incentives capable of delivering upper quartile pay for delivery of superior performance is the most effective way in which to ensure that the Executive Directors and senior management are incentivised to deliver the Company's strategic goals and therefore long term shareholder value.

The Company's annual remuneration programme currently consists of three primary components: base salary and benefits, annual performance pay, and long term incentive awards granted under the Company's current share plan incentives.

The chart below illustrates the relationship between base salary and the variable elements of remuneration for Executive Directors at different levels of performance. For on-target performance, a bonus award of 100% of salary and a Performance Share Plan (PSP) award worth 50% of the normal maximum Long Term Incentive award, i.e. 100% of salary, has been assumed. For stretch performance, a bonus award of 200% of salary is assumed and a PSP award in line with the normal maximum, i.e. 200% of salary, has been assumed.

Relationship between salary and variable elements of pay for Executive Directors



The amount of base salary, annual performance pay and long term incentive awards granted to the Executive Directors during 2012 are set out in the remuneration table on page 58.

On 9 November 2012 Nigel Hares stepped down from his position as an Executive Director and since that date has provided consultancy services to EnQuest as an adviser to the Chief Executive. Details of the remuneration received by Nigel Hares for 2012 are disclosed on the Directors' Remuneration table on page 58.

Reward component

Base salary and benefits

The base salary and benefits of the Executive Directors are reviewed annually by the Remuneration Committee and any changes take effect from 1 January each year. In conducting the base salary review, the Committee takes into consideration factors such as the current competitive market conditions, pay and conditions among the wider workforce, and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. The Committee obtains information regarding competitive market conditions from external benchmarking agencies, as required.

The Remuneration Committee annually evaluates the performance of each of the Executive Directors and benchmarks their salaries against comparator companies within the oil and gas market. Any adjustments to base salary (including the Chief Executive's) are initiated and approved by the Remuneration Committee.

Prior to the start of the 2013 financial year the Committee carried out a review of the Executive Directors' salaries, which resulted in an increase in line with the lower quartile of the FTSE 250 benchmark companies: £410,000 for Amjad Bseisu (3.8% increase) and £264,000 for Jonathan Swinney (3.5% increase). The average increase for the Company's other employees was 4.3%.

REMUNERATION REPORT CONTINUED

The Company provides a defined contribution pension plan for certain employees below Executive Director level. In lieu of such benefits for the Executive Directors, the Company pays an allowance of £30,000 per annum (£40,000 for the Chief Executive). These remained the same as prior years and have not changed since the Company was formed.

Annual performance pay

The discretionary performance pay scheme applies to all employees and Executive Directors and is based on individual and Company performance against objectives. Each measure is given a respective weighting, with the Executive Directors receiving 80% of performance pay based on Company performance targets and 20% based on individual performance targets. The Executive Directors' individual performance is measured through personal performance contracts which were set and approved by the Remuneration Committee in January 2012 and then reviewed by the Remuneration Committee in January 2013. The Company's performance objectives are based on annually defined Key Performance Indicators (KPIs), which require the achievement of operational targets, financial performance, HSE standards, portfolio growth and share price performance. These measures were met or exceeded for financial performance, portfolio growth, HSE standards and share price performance; and between the threshold and on-target levels for operational performance.

The choice of the Company performance targets for 2012, and their respective weightings, reflect the Committee's belief that any short term performance pay should be tied both to the overall performance of the Company and the individual's performance. Similar targets will be used for the 2013 scheme with the addition of categories for project delivery and people and organisation.

Executive Directors are able to receive performance pay of up to 100% of salary for performance that is in line with expectations. For outstanding individual and Company performance, bonuses of up to 200% of salary may be paid. At least one third of performance pay is paid in shares which vest after two years, subject to continued employment. The actual level of performance pay awarded to the Executive Directors in 2012 was 120% of salary for Amjad Bseisu, 69% of salary for Nigel Hares, and 114% of salary for Jonathan Swinney, taking into account a blend of Company and individual performance.

Long term share incentives

In order to incentivise Executive Directors and selected senior management to deliver superior levels of long term performance for the benefit of shareholders, the Remuneration Committee's policy is to award these individuals with share incentives under the long term incentive plans. The current plans are the EnQuest PLC Performance Share Plan 2010 (2010 PSP), the EnQuest PLC Restricted Share Plan 2010 (2010 RSP) and the EnQuest PLC Deferred Bonus Share Plan 2010 (2010 DBSP). Executive Directors received initial awards relating to the IPO under the 2010 RSP and subsequent long term share incentives under the 2010 PSP only.

2010 PSP

The 2010 PSP enables Executive Directors and selected senior employees to be granted conditional awards over Company shares, the vesting of which is normally dependent on both continued employment with the Company and the extent to which pre-determined performance conditions are met over a specified period of three financial years. The scheme is intended to incentivise the participants to create shareholder value whilst retaining due focus on the underlying financial performance of the Company and to align their interests closely with those of shareholders. The value of share awards to a participant under the 2010 PSP in any financial year is subject to a limit of 200% of base salary, although a 300% of salary limit can be awarded to an individual by the Remuneration Committee in exceptional circumstances.

In 2012, PSP awards with a market value of 112% of salary were granted to Amjad Bseisu, Nigel Hares received an award equivalent to 119% of salary, and 124% for Jonathan Swinney.

Under the PSP, the shares vest subject to the achievement of performance conditions. The 2010 PSP share awards granted in 2012 had three sets of performance conditions associated with them. One third of the award relates to Total Shareholder Return (TSR) against a comparator group of 38 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; one third relates to production growth per share, and one third relates to reserves growth per share, over a three year financial performance period.

TSR performance condition

The TSR targets for the 2012 awards are as follows:

Ranking against the comparator group	% of this element of the award which vests
Below median	0%
Median	30%
Upper quartile	100%

For performance between median and upper quartile vesting is determined on a pro-rata basis.

Production growth per share condition

Performance against this condition is measured from a base net export production per share of 23,698 Boepd as at 31 December 2011. The targets for the 2012 awards are as follows:

Average annual growth in net export production per share over three years	% of this element of the award which vests
Less than 105%	0%
105%	30%
110%	100%

For performance that is between 105% and 110% of base, vesting is determined on a pro-rata basis.

Reserves growth per share condition
Performance against this condition is measured from a base of net 2P reserves of 115.2 MMboe as at 31 December 2011. The targets for the 2012 awards are as follows:

3-year cumulative net 2P reserves	% of this element of the award which vests
Less than 110% of base	0%
110% of base	30%
125% of base	65%
150% of base	100%

For performance that is between 110% and 150% of base, vesting is determined on a pro-rata basis.

It is intended that the targets attached to the awards to be granted in 2013 will be similar to those used in 2012.

The Remuneration Committee granted an aggregate of 3,021,117 share awards to Executive Directors and senior management on 19 April 2012.

2010 RSP
The 2010 RSP was established for use at the time when the Company became listed on the Main Market of the London Stock Exchange in April 2010 in order to facilitate the deferral of IPO bonuses and to grant retention focused awards. Other than being subject to continued employment, the RSP awards have no performance targets, and vest in tranches over two, three and four years from the date of grant. The 2010 RSP is available as a retention tool whereby awards may be made to selected individuals who join the Company part way through the year, having left accrued benefits with a previous employer. In this regard, the Remuneration Committee granted an aggregate of 686,000 share awards to selected employees on 19 April and 20 August 2012.

2010 DBSP
Under the 2010 DBSP, employees, below Executive Director level, who achieve a pre-determined rating under the annual appraisal system, are invited to defer a proportion of their annual performance pay into Company shares. Under the plan, the shares which are acquired with a participant's performance pay are called 'Invested Shares'. Following such an investment, the Company will generally grant the participant an additional award over a number of shares being a specified ratio to the number of Invested Shares and these awards are called 'Matching Shares'. The Remuneration Committee granted an aggregate of 391,705 Matching Shares on 19 April 2012, which were awarded to participants on the basis of a 1:1 ratio to the Invested Shares. No further awards were granted under the 2012 DBSP during the year.

Non-Executive Directors
The remuneration of each of the Non-Executive Directors (other than the Chairman) is determined by the Chairman and the executive members of the Board within limits set out in the Articles and having taken independent advice on appropriate levels. The remuneration of the Chairman is determined by the Committee (in his absence), again based on independent advice. The Company's policy is to set levels of fees so as to ensure that they are sufficient to attract experienced individuals and reflect the increased responsibilities of the Non-Executive Directors.

The Non-Executive Directors' annual fees for 2012 were £200,000 for Dr James Buckee and £45,000 for each of the other Non-Executive Directors. In addition to this, an annual fee of £8,000 is payable to Jock Lennox and Helmut Langanger for their roles as Chairman of the Audit and Remuneration Committees respectively. Actual fees paid for the year ended 31 December 2012 are shown in the remuneration table on page 58.

The Non-Executive Directors cannot participate in the Company's share incentive arrangements and are not entitled to a bonus or pension contribution.

Service contracts/letters of appointment
The Company's policy is for all Executive Directors to have contracts of service which can be terminated by either the Director concerned or the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to loss of salary and cash benefit allowance for the notice period. Depending on the circumstances of termination, the Executive Directors may be entitled, or the Remuneration Committee may exercise its discretion to allow the Executive Directors, to receive a pro-rated proportion of their outstanding awards under the long term share incentive plans.

On a change of control of the Company resulting in the termination of an Executive Director's employment, the Executive Director is entitled to compensation of a sum equal to his/her annual basic salary as at the date of termination of employment.

The Non-Executive Directors do not have service contracts but their terms are set out in a letter of appointment. Their terms of appointment may be terminated by either party giving three months notice in writing. The letters of appointment set out the time commitment expected by the Company and the Board is satisfied that each of the Non-Executive Directors commits sufficient time to fulfil their duties as a Director of the Company.

The Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available for inspection on request and will be available for inspection before and during the AGM to be held on 29 May 2013.

REMUNERATION REPORT CONTINUED

Details of the service contracts and letters of appointment of the current Directors of the Company are given in the tables below:

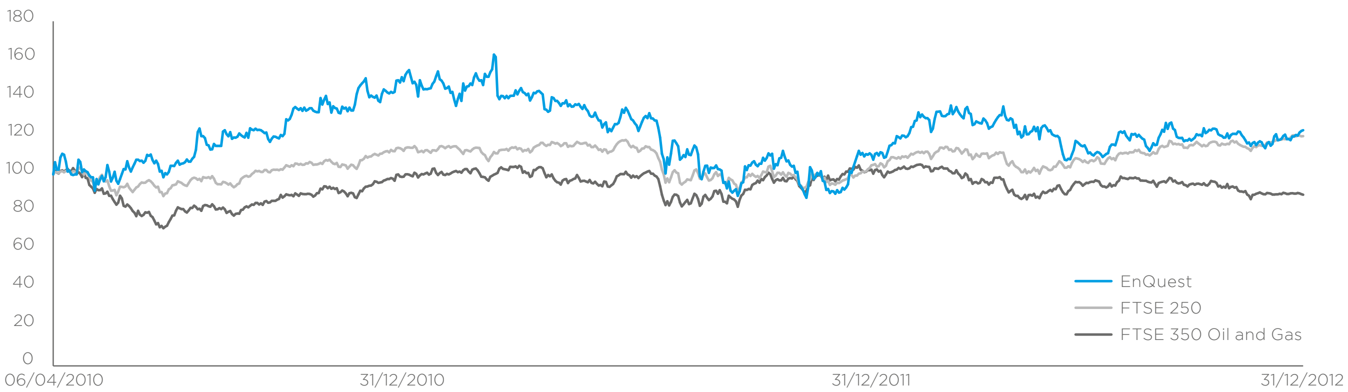
	Date of appointment	Notice period
Executive service contract		
Amjad Bseisu	22 February 2010	12 months
Jonathan Swinney	29 January 2010	12 months

	Date of appointment	Notice period	Initial term of appointment
Non-Executive letters of appointment			
Dr James Buckee	22 February 2010	3 months	2 years[1]
Helmut Langanger	16 March 2010	3 months	3 years[1]
Jock Lennox	22 February 2010	3 months	3 years[1]
Clare Spottiswoode	1 July 2011	3 months	3 years
Phil Nolan	1 August 2012	3 months	3 years

1 Following expiry of the initial term, Dr James Buckee, Helmut Langanger and Jock Lennox each had their term of appointment extended by a further three years.

Performance graph

The following graph shows the Company's share price since trading of the Company's shares began on the London Stock Exchange on 6 April 2010 against the FTSE 250 index and FTSE 350 Oil and Gas index.



Information subject to audit

Directors' remuneration for the year ended 31 December 2012

	Salary £	Cash allowance benefits[1] £	Performance pay[2] £	Fees £	Total 2012 £	Total 2011 £
Executive						
Amjad Bseisu	**395,000**	**40,000**	**474,000**	**–**	**909,000**	730,000
Nigel Hares[3]	**249,474**	**25,808**	**200,000**	**–**	**475,282**	570,000
Jonathan Swinney	**255,000**	**30,000**	**291,000**	**–**	**576,000**	455,000
Non-Executive						
Dr James Buckee	**–**	**–**	**–**	**200,000**	**200,000**	200,000
Helmut Langanger	**–**	**–**	**–**	**53,000**	**53,000**	53,000
Jock Lennox	**–**	**–**	**–**	**53,000**	**53,000**	53,000
Alexandre Schneiter[4]	**–**	**–**	**–**	**18,750**	**18,750**	45,000
Clare Spottiswoode	**–**	**–**	**–**	**45,000**	**45,000**	22,500
Phil Nolan[5]	**–**	**–**	**–**	**18,750**	**18,750**	–
Robin Pinchbeck[6]	**–**	**–**	**–**	**–**	**–**	18,049
Total	**899,474**	**95,808**	**965,000**	**421,000**	**2,348,782**	2,146,549

Notes:
1 Cash allowance in lieu of pension and other benefits. None of the Directors are eligible to receive pension contributions from the Company. The Executive Directors receive the non-cash benefit of private medical insurance cover as well.
2 Performance pay was based on 2012 base salary levels and payment was made in respect of the full financial year. For Amjad Bseisu and Jonathan Swinney, one third of the performance pay will be paid in EnQuest PLC shares, deferred for two years and subject to continued employment. For Nigel Hares, one half of the performance pay will be deferred until April 2014.
3 Nigel Hares stood down from his position as a Director of the Company on 9 November 2012 and assumed a consultancy role as adviser to the Chief Executive for which he received consultancy fees of £32,500 until the end of the financial year.
4 Alexandre Schneiter stood down as a Director at the 2012 AGM on 30 May 2012.
5 Phil Nolan was appointed as a Non-Executive Director on 1 August 2012.
6 Robin Pinchbeck stood down as a Non-Executive Director at the 2011 AGM on 25 May 2011.

Directors' interests in restricted share plan awards as at 31 December 2012

Director	At 31 December 2011	Granted during year	Awards vested	Awards lapsing	At 31 December 2012	Vesting periods	Expiry date
Amjad Bseisu[1]	1,609,063	–	402,266	–	1,206,797	1 April 2012–1 April 2014	31 March 2020
	591,324	–	147,831	–	443,493	19 April 2012–19 April 2014	18 April 2020
Jonathan Swinney[1]	536,354	–	134,089	–	402,265	1 April 2012–1 April 2014	31 March 2020
	163,387	–	40,847	–	122,540	19 April 2012–19 April 2014	

Notes:
1 Nil cost award shares under the Restricted Share Plan vested in April 2012 but were not exercised. They were rolled over in line with the Plan rules.

- During 2012, 1,194,343 nil cost award shares vested. The share price at the date of vesting was 130.8 pence, and as the shares were granted at nil cost, the aggregate gain on vesting amounted to £1,562,200.
- Nigel Hares continues to hold 1,072,709 nil cost awards under the Restricted Share Plan which vest between 1 April 2011 and 31 March 2020. Out of these shares, 268,177 nil cost awards vested in April 2011 and 201,133 nil cost awards vested in April 2012 but were not exercised. They were rolled over in line with the Plan rules.

Directors' interests in performance share plan awards as at 31 December 2012

Director	At 31 December 2011	Granted during year	Awards vested	Awards lapsing	At 31 December 2012	Vesting periods	Expiry date
Amjad Bseisu	583,090	–	–	–	583,090	19 April 2014	18 April 2021
	–	391,790	–	–	391,790	19 April 2015	18 April 2022
Jonathan Swinney	324,975	–	–	–	324,975	19 April 2014	18 April 2021
	–	254,663	–	–	254,663	19 April 2015	18 April 2022

Notes:
Nigel Hares continues to hold 760,312 nil cost awards under the Performance Share Plan. 443,148 nil cost awards were granted on 19 April 2011 and 317,164 nil cost awards were granted on 19 April 2012.

The table above shows the maximum number of shares that could be released if awards were to vest in full. The share price on the date of the 2012 grants was 124.3p. These awards first vest on the third anniversary of the award date, subject to the achievement of performance conditions (as described on pages 56 and 57).

On behalf of the Board

Helmut Langanger
Chairman of the Remuneration Committee
26 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards as adopted by the European Union.

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with International Financial Reporting Standards as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT AND ACCOUNTS TO THE MEMBERS OF ENQUEST PLC (REGISTERED NUMBER: 07140891)

We have audited the Group financial statements of EnQuest PLC for the year ended 31 December 2012 which comprise the Group Statement of Comprehensive Income, Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in respect of the Group financial statements set out on page 60, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 48, in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of EnQuest PLC for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ernst & Young LLP
Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 March 2013

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Business performance US$'000	2012 Exceptional items and depletion of fair value uplift (note 4) US$'000	2012 Reported in year US$'000	2011 Business performance US$'000	2011 Exceptional items and depletion of fair value uplift (note 4) US$'000	2011 Reported in year US$'000
Revenue	5(a)	**889,510**	**–**	**889,510**	935,974	–	935,974
Cost of sales	5(b)	**(448,186)**	**(10,251)**	**(458,437)**	(491,817)	(16,973)	(508,790)
Gross profit/(loss)		**441,324**	**(10,251)**	**431,073**	444,157	(16,973)	427,184
Exploration and evaluation expenses	5(c)	**(23,157)**	**–**	**(23,157)**	(36,962)	–	(36,962)
Gain on disposal of asset held for sale	4	**–**	**–**	**–**	–	8,644	8,644
Impairment of investments	4	**–**	**(4,417)**	**(4,417)**	–	(12,497)	(12,497)
Impairment of oil and gas assets	4	**–**	**(143,882)**	**(143,882)**	–	–	–
Gain on disposal of property, plant and equipment	4	**–**	**175,929**	**175,929**	–	–	–
Well abandonment	4	**–**	**–**	**–**	–	8,194	8,194
General and administration expenses	5(d)	**(6,650)**	**–**	**(6,650)**	(13,755)	–	(13,755)
Other income	5(e)	**2,000**	**–**	**2,000**	–	–	–
Other expenses	5(f)	**(8,445)**	**–**	**(8,445)**	(3,344)	–	(3,344)
Profit/(loss) from operations before tax and finance income/(costs)		**405,072**	**17,379**	**422,451**	390,096	(12,632)	377,464
Finance costs	6	**(21,211)**	**–**	**(21,211)**	(18,598)	–	(18,598)
Finance income	6	**2,161**	**–**	**2,161**	3,955	–	3,955
Profit/(loss) before tax		**386,022**	**17,379**	**403,401**	375,453	(12,632)	362,821
Income tax	7	**(126,357)**	**85,174**	**(41,183)**	(239,400)	(62,430)	(301,830)
Profit/(loss) for the year attributable to owners of the parent		**259,665**	**102,553**	**362,218**	136,053	(75,062)	60,991
Other comprehensive income for the year, after tax:							
Cash flow hedges (net of tax)	21			**2,554**			(2,600)
Total comprehensive income for the year, attributable to owners of the parent				**364,772**			58,391
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.331**		**0.462**	0.170		0.076
Diluted		**0.326**		**0.454**	0.170		0.076

The attached notes 1 to 28 form part of these Group financial statements.

GROUP BALANCE SHEET
AT 31 DECEMBER 2012

	Notes	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**1,816,591**	1,273,558
Goodwill	11	**107,760**	107,760
Intangible oil and gas assets	12	**97,506**	24,347
Asset held for sale	13	**-**	1,254
Investments	14	**2,317**	6,734
Deferred tax assets	7	**23,143**	12,617
Other financial assets	21	**19,447**	–
		2,066,764	1,426,270
Current assets			
Inventories	15	**15,301**	11,842
Trade and other receivables	16	**239,722**	126,554
Income tax receivable		**2,007**	2,618
Cash and cash equivalents	17	**124,522**	378,907
Other financial assets	21	**96,472**	2,510
		478,024	522,431
TOTAL ASSETS		**2,544,788**	1,948,701
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**113,433**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**(46)**	(2,600)
Share-based payment reserve		**(11,072)**	(5,961)
Retained earnings		**528,699**	166,481
TOTAL EQUITY		**1,293,869**	934,208
Non-current liabilities			
Borrowings	20	**34,600**	–
Obligations under finance leases	24	**107**	–
Provisions	22	**232,952**	181,237
Other financial liabilities	21	**-**	335
Deferred tax liabilities	7	**632,230**	590,010
		899,889	771,582
Current liabilities			
Trade and other payables	23	**329,666**	234,337
Obligations under finance leases	24	**34**	–
Other financial liabilities	21	**17,570**	6,870
Income tax payable		**3,760**	1,704
		351,030	242,911
TOTAL LIABILITIES		**1,250,919**	1,014,493
TOTAL EQUITY AND LIABILITIES		**2,544,788**	1,948,701

The attached notes 1 to 28 form part of these Group financial statements.

The financial statements on pages 62 to 92 were approved by the Board of Directors on 26 March 2013 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2012

	Share capital US$'000	Merger reserve US$'000	Cash flow hedge reserve US$'000	Share-based payments reserve US$'000	Available-for-sale reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2011	113,174	662,855	–	2,540	–	104,327	882,896
Profit for the year	–	–	–	–	–	60,991	60,991
Other comprehensive income:							
Losses arising during the year on cash flow hedges (net of tax)	–	–	(2,600)	–	–	–	(2,600)
Marked-to-market value of investment	–	–	–	–	(10,629)	–	(10,629)
Reclassification of impairment of investments	–	–	–	–	10,629	–	10,629
Total comprehensive income for the year	–	–	(2,600)	–	–	60,991	58,391
Issue of shares to Employee Benefit Trust	259	–	–	(259)	–	–	–
Share-based payment charge	–	–	–	4,881	–	–	4,881
Bonus liability accrual settled in shares granted during the year	–	–	–	–	–	1,163	1,163
Shares purchased on behalf of Employee Benefit Trust	–	–	–	(13,123)	–	–	(13,123)
At 31 December 2011	**113,433**	**662,855**	**(2,600)**	**(5,961)**	**–**	**166,481**	**934,208**
Profit for the year	–	–	–	–	–	362,218	362,218
Other comprehensive income	–	–	2,554	–	–	–	2,554
Total comprehensive income for the year	–	–	2,554	–	–	362,218	364,772
Share-based payment charge	–	–	–	5,163	–	–	5,163
Shares purchased on behalf of Employee Benefit Trust	–	–	–	(10,274)	–	–	(10,274)
At 31 December 2012	**113,433**	**662,855**	**(46)**	**(11,072)**	**–**	**528,699**	**1,293,869**

The attached notes 1 to 28 form part of these Group financial statements.

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 US$'000	2011 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**403,401**	362,821
Depreciation	5(d)	**1,483**	1,784
Depletion	5(b)	**216,780**	217,233
Exploration and evaluation expenses	5(c)	**23,157**	36,962
Impairment of oil and gas assets	4	**143,882**	
Well abandonment	4	**–**	(8,194)
Gain on disposal of asset held for sale	4	**–**	(8,644)
Gain on disposal of property, plant and equipment	4	**(175,929)**	–
Impairment on available-for-sale investments	4	**4,417**	12,497
Share-based payment charge	5(g)	**5,163**	4,881
Unwinding of discount on decommissioning provisions	6	**10,148**	7,793
Unrealised exchange losses	5(f)	**8,445**	3,344
Net finance costs	6	**8,902**	6,850
Operating profit before working capital changes		**649,849**	637,327
Increase in trade and other receivables		**(105,088)**	(1,940)
(Increase)/decrease in inventories		**(3,459)**	562
Increase in trade and other payables		**52,610**	20,383
Cash generated from operations		**593,912**	656,332
Decommissioning spend		**(13,618)**	(9,192)
Income taxes paid		**(790)**	(10,855)
Net cash flows from operating activities		**579,504**	636,285
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(838,399)**	(223,947)
Purchase of intangible oil and gas assets		**(128,403)**	(53,964)
Proceeds from farm out		**124,587**	–
Acquisition of available-for-sale investments		**–**	(808)
Interest received		**787**	1,834
Net cash flows used in investing activities		**(841,428)**	(276,885)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**34,692**	–
Shares purchased by Employee Benefit Trust		**(10,274)**	(13,123)
Repayment of obligations under finance leases		**(89)**	–
Interest paid		**(632)**	(1)
Other finance costs paid		**(14,065)**	(9,633)
Net cash flows from/(used) in financing activities		**9,632**	(22,757)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(252,292)**	336,643
Net foreign exchange on cash and cash equivalents		**(2,093)**	869
Cash and cash equivalents at 1 January		**378,907**	41,395
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**124,522**	378,907

The attached notes 1 to 28 form part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Corporate information

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

The Group's principal activities are the exploration for, and extraction and production of hydrocarbons in the UK Continental Shelf. During the year the Group acquired interests in an exploration licence in Malaysia and pre-qualified as an operator in the Norwegian North Sea.

The Group's financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2013.

A listing of the principal Group companies is contained in note 28 to these Group financial statements.

2. Summary of significant accounting policies

Basis of preparation

The Group financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2012 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2012.

The Group financial information has been prepared on a historical cost basis. The presentation currency of the Group financial information is United States dollars and all values in the Group financial information are rounded to the nearest thousand (US$'000) except where otherwise stated.

Going concern concept

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and there are no material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. See page 48 in the Directors' Report for further details.

Basis of consolidation

Subsidiaries

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

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

Unincorporated jointly controlled assets

Oil and gas operations are conducted by the Group as co-licensees in unincorporated joint ventures with other companies. The Group's financial statements reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities of the joint venture applicable to the Group's interests. The Group's current joint venture interests are detailed on page 25.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

New standards and interpretations

The Group has adopted new and revised IFRS's that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2012. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Standards issued but not yet effective

Standards issued and relevant to the Group, but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of Standards and Interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these Standards when they become effective. The Directors do not anticipate that the adoption of these Standards will have a material impact on the Group's accounts in the period of initial application.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments change the grouping of items presented in the statement of comprehensive income. Items that would be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The revisions become effective for annual periods beginning on or after 1 July 2012.

2. Summary of significant accounting policies continued

IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The Standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. However, the Group determined that the effect shall be quantified in conjunction with the other phases when issued to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements/ IAS 27 (Revised) – Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities and introduces changes which will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The consolidation requirements forming part of IAS 27 will be revised and contained within IFRS 10. These Standards are effective for annual periods beginning on or after 1 January 2014 in the European Union.

IFRS 11 Joint Arrangements

IFRS 11 establishes a clear principle that is applicable to the accounting for all joint arrangements. The Standard is effective for annual periods beginning on or after 1 January 2014 in the European Union. The most significant change is that IFRS 11 requires the use of the equity method of accounting for interests in jointly controlled entities thereby eliminating the proportionate consolidation method.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The Standard will be revised due to the introduction of IFRS 11 and 12. The Standard describes the application of the equity method to investments in joint ventures in addition to associates. The revision will become effective for annual periods beginning on or after 1 January 2014 in the European Union.

IFRS 12 Disclosure of Interests in Other Entities

Includes disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is effective for annual periods beginning on or after 1 January 2014 in the European Union.

IFRS 13 Fair Value Measurement

The Standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required but prescribes how fair value is to be measured if another Standard requires it. The Standard is effective for annual periods beginning on or after 1 January 2013.

Annual improvements May 2012

IAS 1 Presentation of Financial Statements – This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment – This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

These improvements are effective for annual periods beginning on or after 1 January 2013.

Critical accounting estimates and judgements

The management of the Group has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Estimates in oil and gas reserves

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

Estimates in impairment of assets (excluding goodwill)

For details of policy see Impairment of assets (excluding goodwill) and refer to the further economic assumptions above within Estimates in oil and gas reserves.

In calculating the asset fair values the Group has applied an oil price assumption of US$107.60 per barrel in 2013, US$102.00 per barrel in 2014, US$97.80 per barrel in 2015, US$94.30 per barrel in 2016, US$91.70 per barrel in 2017 thereafter US$90 inflated at 2% per annum from 2013 (2011: US$119.25 per barrel in 2012, US$112.08 per barrel in 2013, US$104.73 per barrel in 2014, US$98.67 per barrel in 2015, US$97.42 per barrel in 2016 thereafter inflated at 2% per annum from 2012) and a discounted pre-tax rate of 20.4% (2011: 21.3%).

Determining whether an acquisition is a business combination or asset purchase

The Group analyses the transaction or event by applying the definition of a business combination, principally whether inputs, processes and outputs exist, including reviewing group strategy, control and resources. Should the acquired business not be viewed as a business combination then it is accounted for as an asset purchase.

Determining the fair value of property, plant and equipment on business combinations

The Group determines the fair value of property, plant and equipment acquired based on the discounted cash flows at the time of acquisition, from the proven and probable reserves. In assessing the discounted cash flows the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value the Group will apply the long term oil price assumption, escalated for inflation and discounted at the pre-tax rate. The oil price assumption will represent management's view of the long term oil price at the time of the transaction.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

2. Summary of significant accounting policies continued

Decommissioning provision

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

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

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2% (2011: 2%) and an annual discount rate of 5% (2011: 5%).

Estimates in impairment of goodwill

Determination of whether goodwill has suffered any impairment requires an estimation of the value in use of the cash-generating units (CGU) to which goodwill has been allocated. The present value calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate. In calculating the present value in use of the CGU, the Group has used forward curve prices for the first five years before reverting to the Group's long term pricing assumption and discounted at a pre-tax rate of 20.4% (2011: forward curve prices for the first four years before reverting to the Group's long term pricing assumption and discounted at a pre-tax rate of 21.3%).

Taxation

The UK's corporation tax legislation is complex. The Group's operations are subject to a number of specific rules which apply to UK North Sea exploration and production. In addition, the tax provision is prepared before the relevant companies have filed their UK corporation tax and supplementary charge returns with HMRC and significantly, before these have been agreed. As a result of these factors the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate. In considering the tax on exceptionals, the Company applies the appropriate statutory tax rate to each exceptional item to calculate the relevant tax charge on exceptional items.

The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised, as well as the likelihood of future taxable profits.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group financial statements are presented in United States dollars, the currency which the Group has elected to use as its presentation currency.

In the accounts of the Company and its individual subsidiaries, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to profit and loss in the statement of comprehensive income.

Classification and recognition of assets and liabilities

Non-current assets and non-current liabilities including provisions consist, for the most part, solely of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within 12 months after the balance sheet date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depleted, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

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

Office furniture and equipment	25% – 100%

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of comprehensive income when the item is derecognised. Gains are not classified as revenue.

Capitalised costs

Oil and gas assets are accounted for using the successful efforts method of accounting.

2. Summary of significant accounting policies continued

Intangible oil and gas assets

Expenditure directly associated with evaluation or appraisal activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are impaired and any impairment loss is recognised in the statement of comprehensive income. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the statement of comprehensive income. When assets are declared part of a commercial development, related costs are transferred to property, plant and equipment oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the statement of comprehensive income.

Oil and gas assets

Expenditure relating to development of assets including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Farm outs – outside the exploration and evaluation phase

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

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

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

Asset swaps

For exchanges or part exchanges of intangible oil and gas assets they are accounted for at the carrying value of the asset given up and no gain or loss is recognised.

Changes in unit-of-production factors

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

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its oil and gas assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

2. Summary of significant accounting policies continued

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Non-current assets held for sale

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

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

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All assets are recognised initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date.

The Group's financial assets include cash and short term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Financial assets designated upon initial recognition at FVTPL are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. Where the Group is unable to trade these financial assets or management's intention to sell them in the foreseeable future changes significantly, the Group may elect to reclassify these assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVTPL using the fair value option at designation. These instruments cannot be reclassified after initial recognition.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation and losses arising from impairment are included in the profit or loss.

Available-for-sale financial investments

Listed and unlisted shares held by the Group that are traded in an active market are classified as being available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the available-for-sale reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale reserve is reclassified to profit or loss.

Loans and receivables

These include trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired where there is objective evidence of impairment that, as a result of one or more events that have occurred after the initial recognition of the asset, the estimated future cash flows of the investment have been affected.

2. Summary of significant accounting policies continued

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. In respect of equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group categorises derivatives as follows:

Fair value hedge

Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in shareholders' equity are transferred to the profit or loss in the period when the hedged item will affect the profit or loss. When the hedged item no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders' equity is transferred to profit and loss when the forecast transaction which was the subject of the hedge occurs.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in shareholders' equity is transferred to the profit or loss at the time the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the profit or loss.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a first in first out (FIFO) basis. Inventories of hydrocarbons are stated at the lower of cost and net realisable value.

Under/over-lift

Under or over-lifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An under-lift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price and an over-lift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

Cash and cash equivalents

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

Equity

Share capital

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent Company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds.

Merger reserve

Merger reserve represents the difference between the market value of shares issued to effect business combinations less the nominal value of shares issued. The merger reserve in the Group financial statements also includes the consolidation adjustments that arise under the application of the pooling of interest method.

Cash flow hedge reserve

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

Share-based payments reserve

Equity-settled share-based payment transactions are measured at the fair value of the services received, and the corresponding increase in equity is recorded directly at the fair value of the services received. The share-based payments reserve includes treasury shares.

Retained earnings

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

Employee benefit trust

EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of equity shares.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2012

2. Summary of significant accounting policies continued
Provisions
Decommissioning
Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

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

Other
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Derecognition of financial assets and liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of comprehensive income.

Interest-bearing loans and borrowings
Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowing costs are stated at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period to the net carrying amount of the financial liability where appropriate.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even of that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

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

Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Tariff revenue is recognised in the period in which the services are provided at the agreed contract rates.

Exceptional items
As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional on the face of the statement of comprehensive income are those material items of income and expense which because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Summary of significant accounting policies continued

Depletion of fair value uplift to property, plant and equipment on acquiring strategic investments

IFRS requires that a fair value exercise is undertaken allocating the cost of acquiring controlling interests to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which includes identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed as at the date of acquisition.

The Directors have determined that for strategic investments it is important to identify separately the earnings impact of increased depletion arising from the acquisition date fair value uplifts made to property, plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the oil and gas industry the value attributed to strategic assets is subjective, based on a wide range of complex variables at a point in time. The subsequent depletion of the fair value uplifts bears little relationship to current market conditions, operational performance or cash generation. Management therefore reports and monitors the business performance of strategic investments before the impact of depletion of fair value uplifts to property, plant and equipment and the uplift is excluded from the business result presented in the Group statement of comprehensive income.

Employee benefits

Short term employee benefits

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

Pension obligations

The Group's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The amount charged to the statement of comprehensive income in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) of EnQuest PLC.

Equity-settled transactions

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

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting conditions, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the statement of comprehensive income.

Taxes

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured on an undiscounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legal right exists to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Production taxes

In addition to corporate income taxes, the Group's financial statements also include and disclose production taxes on net income determined from oil and gas production.

The Group distinguishes between income tax and production tax. Production tax relates to Petroleum Revenue Tax (PRT) and is accounted for under IAS 12 since it has the characteristics of an income tax as it is imposed under Government authority and the amount payable is based on taxable profits of the relevant fields. Current and deferred PRT is provided on the same basis as described above for income taxes.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

3. Segment information

Management have considered the requirements of IFRS 8, in regard to the determination of operating segments, and concluded that the Group has only one significant operating segment being the exploration for, and the extraction and production of hydrocarbons.

All revenue is generated from sales to customers in the United Kingdom. Details of the Group's revenue components are provided in note 5(a). All crude oil revenue is received from one major customer, Shell International Trading and Shipping Company Limited and amounted to US$879,307,000 or 99% of total revenue (excluding oil hedge gains and losses) in the year ended 31 December 2012 (2011: US$954,051,000 or 98% of total revenue).

All non-current assets of the Group are located in the United Kingdom except for US$7,136,000 (2011: nil) located in Malaysia.

4. Exceptional items and depletion of fair value uplift

	2012 US$'000	2011 US$'000
Recognised in arriving at profit/(loss) from operations before tax and finance income/(costs):		
Gain on disposal of asset held for sale	–	8,644
Impairment of available for sale investments (note 14)	(4,417)	(12,497)
Impairment of oil and gas assets	(143,882)	–
Gain on disposal of property, plant and equipment	175,929	–
Well abandonment	–	8,194
Depletion of fair value uplift	(10,251)	(16,973)
	17,379	(12,632)
Tax	85,174	(62,430)
	102,553	(75,062)

Gain on disposal of asset held for sale

During the prior year the Group disposed of its held for sale interest in the Petisovci project in Slovenia in return for 150,903,958 new ordinary shares in Ascent Resources plc (Ascent) at a market value of US$18,422,000 creating a gain of US$8,644,000 in the year ended 31 December 2011.

Impairment of available for sale investments

Following disposal of the held for sale Petisovci asset, the Group held an investment in Ascent. The accounting valuation of this shareholding at 31 December 2012 resulted in a non-cash impairment of US$4,417,000 (2011: US$12,497,000).

Impairment of oil and gas assets

As part of the annual impairment review process, impairment triggers were highlighted which has led to a US$143,882,000 impairment of the Heather and Broom hub (refer to note 10).

Gain on disposal of property, plant and equipment

On 12 October 2012, the Company entered into an agreement to farm out 35% of the Alma/Galia development to KUFPEC with an effective date of 1 January 2012. To earn the 35% interest, KUFPEC agreed to pay EnQuest:

a) a total of US$113,187,000 representing 35% of certain costs incurred between 1 January 2012 and 30 September 2012;
b) a US$15,000,000 capital contribution;
c) carry EnQuest from 1 October 2012 up to a cap of US$182,000,000 after which they will revert back to paying their share of the costs (35%). This carry has been recognised in other financial assets (refer note 21) and at 31 December 2012 the carry had reduced to US$95,302,000; and
d) an additional amount of US$647,000 per month on top of their share of operating costs, for a period of 36 months after the date of first oil production. The present value of these payments of US$19,300,000 has been recognised as an other financial asset (refer to note 21).

At 31 December 2012, the amounts due under (a) and (b) above had been received.

A 'balancing payment' was also agreed whereby should the cost of development exceed US$1,055,000,000 then EnQuest would be required to pay 17.5% of costs up to a cap on the cost of development of US$1,153,000,000. As costs are now expected to exceed the cap EnQuest will be liable to pay these additional costs and so a liability has been recognised for US$17,150,000 in other financial liabilities.

In addition, a reserves protection mechanism was agreed to enable KUFPEC to recoup its investment to the date of first production (refer to note 24).

The gain on disposal represents the difference between the total consideration and derecognition of 35% of the development at the date of the agreement.

4. Exceptional items and depletion of fair value uplift continued

Well abandonment expenses

During the year ended 31 December 2011 a credit of US$8,194,000 was recognised following a further review of options to recover funds from the previous Thistle field owners, relating to partial decommissioning of two wells covered by the Intervening Period and Decommissioning Liability Agreements.

Depletion of fair value uplift

Additional depletion arising from the fair value uplift of Petrofac Energy Developments Limited's (PEDL) oil and gas assets on acquisition of US$10,251,000 (2011: US$16,973,000) is included within cost of sales in the statement of comprehensive income.

Tax

In addition to the tax impact of the exceptional items, the tax exceptional amount includes the impact of the 2012 enactment of a restriction on relief of costs incurred in respect of the decommissioning of UK oil and gas assets to 50%. This increased the tax charge by US$14,279,000, of which US$10,389,000 has been reflected as an exceptional item as it relates to the restriction on the opening decommissioning liability.

5. Revenue and expenses

(a) Revenue

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Revenue from crude oil sales	879,307	960,401
Gain/(loss) on realisation of financial instruments	53	(36,509)
Revenue from condensate sales	(137)	–
Tariff revenue	10,189	11,672
Other operating revenue	98	410
	889,510	935,974

(b) Cost of sales

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Cost of operations	228,670	233,008
Tariff and transportation expenses	40,806	43,043
Change in lifting position	(24,360)	14,631
Inventory movement (note 15)	(3,459)	875
Depletion of oil and gas assets (note 10)	216,780	217,233
	458,437	508,790

(c) Exploration and evaluation expenses

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Unsuccessful exploration expenditure written off (note 12)	6,514	–
Impairment charge (note 12)	6,583	36,962
Pre-licence costs expensed	10,060	–
	23,157	36,962

(d) General and administration expenses

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Staff costs (note 5(g))	76,861	45,177
Depreciation (note 10)	1,483	1,784
Other general and administration costs	17,570	12,523
Recharge of costs to operations and joint venture partners	(89,264)	(45,729)
	6,650	13,755

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

5. Revenue and expenses continued

(e) Other income

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Other income	2,000	–

(f) Other expenses

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Net foreign exchange losses	8,445	3,344

(g) Staff costs

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Wages and salaries	30,069	21,279
Social security costs	4,054	3,137
Defined contribution pension costs	3,155	1,194
Expense of share-based payments (note 19)	5,163	4,881
Other staff costs	2,682	1,845
Total employee costs	45,123	32,336
Contractor costs	31,738	12,841
	76,861	45,177

The average number of persons employed by the Group during the year was 173 (2011: 112).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report on pages 54 to 59.

(h) Auditors' remuneration

The following amounts were payable by the Group to its auditors Ernst & Young LLP during the year:

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	148	136
Fees payable to the Group's auditors and its associates for other services:		
The audit of the Group's subsidiaries	207	127
Audit related assurance services	67	78
Tax advisory services(i)	745	913
Other assurance services	5	–
Corporate finance services	148	–
	1,320	1,254

(i) Includes costs of US$345,600 (2011: US$620,000) relating to tax advice on asset and corporate acquisitions. These have been capitalised as part of the cost of the asset.

6. Finance costs/income

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Finance costs:		
Loan interest payable	**668**	–
Unwinding of discount on decommissioning provisions (note 22)	**10,148**	7,793
Cash flow hedge re-price premium	**335**	5,867
Fair value loss on financial instruments at fair value through profit or loss (note 21)	**2,147**	–
Finance charges payable under finance leases	**3**	–
Other financial expenses	**8,307**	4,938
	21,608	18,598
Less: amounts included in the cost of qualifying assets	**(397)**	–
	21,211	18,598
Finance income:		
Bank interest receivable	**686**	1,808
Fair value gain on financial instruments at fair value through profit or loss (note 21)	**871**	2,147
Unwinding of financial asset	**479**	–
Other financial income	**125**	–
	2,161	3,955

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Group statement of comprehensive income		
Current income tax		
Current income tax charge	**4,860**	860
Adjustments in respect of current income tax of previous years	**(1,204)**	807
Deferred income tax		
Relating to origination and reversal of temporary differences	**50,335**	237,034
Adjustments in respect of changes in tax rates	**10,785**	68,085
Adjustments in respect of deferred income tax of previous years	**(23,593)**	(4,956)
Income tax expense reported in statement of comprehensive income	**41,183**	301,830

(b) Reconciliation of total income tax charge

A reconciliation between the income tax charge and the product of accounting profit multiplied by the UK statutory tax rate is as follows:

	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Profit before tax	**403,401**	362,821
Statutory rate of corporation tax in the UK of 62% (2011: 59.3%)	**250,109**	215,168
Supplementary corporation tax non-deductible expenditure	**6,552**	888
Non-deductible expenditure	**3,310**	3,195
Deductible lease expenditure	**(76,951)**	–
Non-taxable gain on sale of assets	**(109,076)**	–
Petroleum revenue tax (net of income tax benefit)	**19,081**	14,465
North Sea tax reliefs	**(29,894)**	(6,341)
Tax in respect of non-ring fence trade	**(10,837)**	1,596
Deferred tax rate increase on North Sea oil and gas activities	**14,675**	78,149
Adjustments in respect of prior years	**(24,797)**	(4,149)
Overseas tax rate differences	**(464)**	(1,141)
Other differences	**(525)**	–
At the effective income tax rate of 10% (2011: 83%)	**41,183**	301,830

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group profit and loss account	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Deferred tax liability				
Accelerated capital allowances	**1,050,189**	775,486	**274,703**	222,657
Other temporary differences	**99,955**	46,345	**53,610**	39,999
	1,150,144	821,831		
Deferred tax asset				
Losses	**(359,406)**	(95,558)	**(253,847)**	107,284
Decommissioning liability	**(116,476)**	(112,368)	**(4,108)**	(42,314)
Other temporary differences	**(65,175)**	(36,512)	**(32,831)**	(27,463)
	(541,057)	(244,438)		
Deferred tax expense			**37,527**	300,163
Deferred tax liabilities, net	**609,087**	577,393		
Reflected in balance sheet as follows:				
Deferred tax assets	**(23,143)**	(12,617)		
Deferred tax liabilities	**632,230**	590,010		
Deferred tax liabilities, net	**609,087**	577,393		

In addition to the amount charged to the profit and loss, a deferred tax charge of US$4,167,000 (2011: credit US$4,242,000) in respect of cash flow hedges (note 21), is recognised as other comprehensive income.

(d) Tax losses

Deferred income tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised.

The Group has unused UK mainstream corporation tax losses of US$2,662,000 (2011: US$nil) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

The Group also has pre-trading ring fence expenditure of US$54,529,000 which has arisen following the acquisition of Canamens Energy North Sea Limited in early 2012 for which no deferred tax asset has been recognised. The expenditure is likely to become deductible and available to the Group for UK ring fence taxation purposes during 2013.

The Group has unused overseas tax losses in Canada of approximately CAD$17,106,000 (2011: CAD$76,577,000) and in Holland of €1,070,000 (2011: €920,000) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of between 7 and 20 years, none of which expire in 2013. The tax losses in Canada were adjusted in the 2010 submitted returns to reflect the change in control of Stratic, resulting in a reduction in losses of CAD$47,554,000. Tax losses in Holland can be carried forward for a period up to nine years and are likely to expire in 2013.

(e) Change in legislation

The Finance Act 2012 enacted a restriction on relief of costs incurred in respect of decommissioning to 50%, compared to the North Sea ring fence rate of 62% of the relief. The impact of the decommissioning relief restriction in 2012 is an increase in the tax charge of US$14,279,000, of which US$10,389,000 relates to the restriction of the opening decommissioning balances. A change in the tax rate for non-ring fence companies was also enacted in the Finance Act 2012, reducing the corporation tax rate from 25% to 23% with effect from 1 April 2013. The impact of the change in tax rate is an increase in the tax charge of US$396,000.

In 2011, the enactment of the increase in the UK supplementary corporation tax rate on oil and gas activities in the North Sea increased the deferred tax charge in the income statement by US$78,149,000, of which US$68,086,000 relates to the revaluation of the opening deferred tax corporation tax balance.

8. Earnings per share

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

Basic and diluted earnings per share are calculated as follows:

	Profit after tax Year ended 31 December		Weighted average number of shares Year ended 31 December		Earnings per share Year ended 31 December	
	2012 US$'000	2011 US$'000	**2012 Million**	2011 Million	**2012 US$**	2011 US$
Basic	**362,218**	60,991	**784.1**	801.7	**0.462**	0.076
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**13.3**	2.9	**–**	–
Diluted	**362,218**	60,991	**797.4**	804.6	**0.454**	0.076
Adjusted (excluding exceptional items)	**259,665**	136,053	**784.1**	801.7	**0.331**	0.170

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2012 (2011: nil). At 31 December 2012 there are no proposed dividends. (2011: nil).

10. Property, plant and equipment

	Oil and gas assets US$'000	Office furniture and equipment US$'000	Total US$'000
Cost:			
At 1 January 2011	1,628,601	7,813	1,636,414
Additions	291,723	4,677	296,400
Reclassified from intangible assets (note 12)	11,204	–	11,204
Change in decommissioning provision	50,722	–	50,722
At 31 December 2011	1,982,250	12,490	1,994,740
Additions	829,463	8,859	838,322
Farm in to West Don	29,752	–	29,752
Farm out	(143,054)	–	(143,054)
Cost carry	86,698	–	86,698
Reclassified from intangible assets (note 12)	31,221	–	31,221
Change in decommissioning provision	62,239	–	62,239
At 31 December 2012	**2,878,569**	**21,349**	**2,899,918**
Depletion and depreciation:			
At 1 January 2011	497,989	4,176	502,165
Charge for the year	217,233	1,784	219,017
At 31 December 2011	715,222	5,960	721,182
Impairment charge for the year	143,882	–	143,882
Charge for the year	216,780	1,483	218,263
At 31 December 2012	**1,075,884**	**7,443**	**1,083,327**
Net carrying amount:			
At 31 December 2012	**1,802,685**	**13,906**	**1,816,591**
At 31 December 2011	1,267,028	6,530	1,273,558
At 1 January 2011	1,130,612	3,637	1,134,249

A farm out agreement was entered into during the year with KUFPEC for a 35% share of the Alma/Galia development. Consideration included reimbursement of past costs (US$113,187,000), a capital contribution (US$15,000,000), a cost carry up to a cap of US$182,000,000 and future costs payable after the date of first oil production (US$23,292,000). The cost of the 35% share of assets disposed was US$143,054,000 (including the decommissioning asset).

During the year ended 31 December 2012 there was a US$143,882,000 impairment of the Heather and Broom hub following a delay in phasing of production, particularly to allow the drilling of the West Fault Block well at Thistle in 2013 and an increase in estimated capital expenditure associated with the field life extension programme. The Heather and Broom hub inherited a high net book value of US$423,000,000, reflecting the fair value uplift when Lundin acquired the Heather and Broom assets prior to the formation of EnQuest. Refer to note 11 in respect of key assumptions used in value in use calculations.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

10. Property, plant and equipment continued

At 31 December 2012, due to the recognition of 2P reserves for the Kraken field, US$61,994,000 of costs in relation to Kraken were reclassed from intangible to property, plant and equipment. Also during the year, prior year pre-development costs in relation to Crawford and Porter (US$30,773,000) were transferred to intangible assets as a result of a decision to review development options.

The amount of borrowing costs capitalised during the year ended 31 December 2012 was US$397,000 and relate to the Alma/Galia development (2011: nil). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 0.84% (2011: nil).

The additions during the year and the resultant net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2012 was US$141,000 (2011: nil).

The net book value at 31 December 2012 includes US$535,827,000 (2011: US$107,433,000) of pre-development assets and development assets under construction which are not being depreciated.

11. Goodwill

A summary of the movement in goodwill is presented below:

	2012 US$'000	2011 US$'000
At 1 January and 31 December	**107,760**	107,760

The balance represents goodwill acquired on the acquisition of Stratic and PEDL in 2010. Goodwill acquired through business combinations has been allocated to a single cash-generating unit (CGU), the UKCS, being the Group's only significant operating segment and therefore the lowest level that goodwill is reviewed by the Board.

Impairment testing of goodwill

In accordance with IAS 36 Impairment of Assets, goodwill was reviewed for impairment at the year end. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount.

The recoverable amount of the CGU has been determined on a value in use basis using a discounted cash flow model comprising asset-by-asset life of field projections. The pre-tax discount rate used is derived from the Group's post-tax weighted average cost of capital and is reassessed each year. Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in value in use calculations

The key assumptions required for the calculation of value in use of the CGU are:

- oil prices
- production volumes
- discount rates

Oil prices are based on forward price curves for the first five years before reverting to the Group's long term pricing assumptions. For the purposes of calculating value in use, management has applied an oil price assumption of US$107.60 per barrel in 2013, US$102.00 per barrel in 2014, US$97.80 per barrel in 2015, US$94.30 per barrel in 2016, US$91.70 per barrel in 2017 thereafter US$90 inflated at 2% per annum from 2013. In 2011, oil prices were based on US$119.25 per barrel in 2012, US$112.08 per barrel in 2013, US$104.73 per barrel in 2014, US$98.67 per barrel in 2015, US$97.42 per barrel in 2016 thereafter US$90 inflated at 2% per annum from 2012.

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

The discount rate reflects management's estimate of the Group's weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The pre-tax discount rate applied to the Group's pre-tax cash flow projections is 20.4% (2011: 21.3%).

Sensitivity to changes in assumptions

There are reasonably possible changes in key assumptions which could erode the estimated amount by which the calculated value in use exceeds the carrying value of the CGU. These are discussed below:

- oil price: management has considered the possibility of lower oil prices in the future. Revenue for the Group's future oil production is directly linked to the market price of Brent blend oil. A fall in the price for Brent blend would directly impact the Group's revenue and potentially the economic life of assets in the CGU. It is estimated that the long term price of oil that would cause the recoverable amount to be equal to the carrying amount of the CGU would be US$71.75 per barrel, escalated at 2% per annum (2011: US$80.71 per barrel, escalated at 2% per annum).
- production volumes: estimated production volumes were taken from the report prepared by the Group's independent reserve assessment experts. On a weighted average basis, production would need to fall by 18.4% (2011: 24%) to cause the recoverable amount to fall below the carrying amount of the CGU.

12. Intangible oil and gas assets

	US$'000
Cost	
At 1 January 2011	108,124
Additions	64,165
Write-off of relinquished licences previously impaired	(34,127)
Reclassified to property, plant and equipment (note 10)	(11,204)
Reclassified to asset held for sale (note 13)	(1,254)
At 31 December 2011	125,704
Additions	77,120
Acquisition of interests in licences	39,103
Write-off of relinquished licences previously impaired	(4,754)
Unsuccessful exploration expenditure written off	(6,514)
Reclassified to property, plant and equipment (note 10)	(31,221)
Reclassified from asset held for sale (note 13)	1,254
At 31 December 2012	**200,692**
Provision for impairment	
At 1 January 2011	(98,522)
Impairment charge for the year	(36,962)
Write-off of relinquished licences previously impaired	34,127
At 31 December 2011	(101,357)
Impairment charge for the year	(6,583)
Write-off of relinquished licences previously impaired	4,754
At 31 December 2012	**(103,186)**
Net carrying amount:	
At 31 December 2012	**97,506**
At 31 December 2011	24,347
At 1 January 2011	9,602

During the year ended 31 December 2012, the Group acquired a 60% interest in the Kraken oil discovery in the UKCS in various tranches. The initial 20% interest was acquired through the acquisition of two entities from Canamens Limited for US$36,103,000. These costs are included within acquisition of interests in licences. The remaining 40% is by way of development carries. In addition costs of US$3,000,000 to acquire interests in an exploration licence in Malaysia are included within acquisition of interests in licences.

During the year ended 31 December 2012, US$4,754,000 of costs relating to relinquished licences previously impaired were written off (2011: US$34,127,000).

The impairment charge for the year ended 31 December 2012 includes costs of the Tryfan exploration well which proved to be uncommercial. During the year ended 31 December 2011 costs of US$36,962,000 were impaired relating to dryhole wells or uneconomic assessment on evaluation of the assets.

13. Assets held for sale

	US$'000
At 1 January 2011	9,778
Disposals	(9,778)
Reclassified from intangible fixed assets (note 12)	1,254
At 31 December 2011	1,254
Reclassified to intangible fixed assets (note 12)	(1,254)
At 31 December 2012	**–**

On 11 February 2011, the Group disposed of its held for sale interest in the Petisovci project (Petisovci) in Slovenia in return for 150,903,958 new ordinary shares in Ascent at a market value of US$18,422,000, creating a gain of US$8,644,000.

During 2011, the FQuad Dutch assets were reclassified as held for sale as they were subject to a swap arrangement whereby these were to be transferred to Sterling Resources Limited for a 50% share in the Cairngorm licence Block 16/3d. This arrangement was finalised in December 2012 and therefore the costs have been reclassified to intangible fixed assets.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

14. Investments

	US$'000
Cost	
At 1 January 2011	–
Additions	19,231
At 31 December 2012 and 31 December 2011	**19,231**
Provision for impairment	
At 1 January 2011	–
Impairment charge for the year	(12,497)
At 31 December 2011	(12,497)
Impairment charge for the year	(4,417)
At 31 December 2012	**(16,914)**
Net carrying amount:	
At 31 December 2012	**2,317**
At 31 December 2011	6,734
At 1 January 2011	–

The Group acquired an investment of 150,903,958 new ordinary shares in Ascent at a market value of US$18,422,000 on the disposal of the held for sale Petisovci asset on 11 February 2011 and a further 10,000,000 shares were purchased during 2011 increasing the value of the investment to US$19,231,000. The accounting valuation of the Group's shareholding (based on the movement in the quoted share price of Ascent) has resulted in an additional non-cash impairment of US$4,417,000 in the year ended 31 December 2012 (2011: US$12,497,000).

15. Inventories

	2012 US$'000	2011 US$'000
Crude oil	**15,301**	11,842

16. Trade and other receivables

	2012 US$'000	2011 US$'000
Trade receivables	**94,818**	75,031
Joint venture receivables	**100,918**	33,411
Other receivables	**24,645**	9,313
	220,381	117,755
Prepayments and accrued income	**19,341**	8,799
	239,722	126,554

Trade receivables are non-interest bearing and are generally on 15 to 30 day terms.

Trade receivables are reported net of any provisions for impairment. As at 31 December 2012 no impairment provision for trade receivables was necessary (2011: nil).

Joint venture receivables relate to billings to joint venture partners and were not impaired. The amount included at 31 December 2012 in respect of amounts due from KUFPEC in respect of the carry was US$53,261,000.

As at 31 December 2012 and 31 December 2011 no other receivables were determined to be impaired.

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

17. Cash and cash equivalents

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value. Included within the cash balance at 31 December 2012 is restricted cash of US$14,880,000 (2011: nil) relating to cash held under Performance Guarantee Agreements with suppliers.

18. Share capital

The share capital of the Company as at 31 December was as follows:

	2012 US$'000	2011 US$'000
Authorised, issued and fully paid		
802,660,757 (2011: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249
Share premium	**52,184**	52,184
	113,433	113,433

The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

On 14 April 2011, 3,197,852 Ordinary shares of £0.05 each were issued at par and allotted to the Company's Employee Benefit Trust to satisfy awards made under the Company's share-based incentive schemes. There were no new issues of shares during 2012.

At 31 December 2012 there were 22,966,471 shares held by the Employee Benefit Trust (2011: 18,139,465) due to the purchase of shares to satisfy awards made under the Company's share-based incentive schemes net of shares used during the year.

19. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan. During 2012 a Sharesave Plan was approved by the Company. The grant values for all schemes are based on the average share price from the three days preceding date of grant.

Deferred Bonus Share Plan (DBSP)

Selected employees are eligible to participate under this scheme. Participants may be invited to elect or in some cases, be required, to receive a proportion of any bonus in Ordinary shares of EnQuest (Invested Awards). Following such award, EnQuest will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of his or her invested shares (Matching Shares). The awards granted in 2012 and 2011 will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. The awards granted in 2010 will vest 25% on the second anniversary of the date of grant, a further 25% after year three and the final 50% on the fourth anniversary of the date of grant. The invested awards are fully recognised as an expense in the period to which the bonuses relate. The costs relating to the matching shares are recognised over the vesting period and the fair values of the equity-settled matching shares granted to employees are based on quoted market prices adjusted for the trued up percentage vesting rate of the plan.

Details of the fair values and assumed vesting rates of the DBSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2012 awards	**124p**	**86%**
2011 awards	137p	84%
2010 awards	101p	98%

The following shows the movement in the number of share awards held under the DBSP scheme outstanding and not exercisable:

	2012 Number*	2011 Number*
Outstanding at 1 January	**526,080**	390,730
Granted during the year	**783,410**	351,444
Vested during the year	**(230,743)**	(94,292)
Forfeited during the year	**(60,390)**	(121,802)
Outstanding at 31 December	**1,018,357**	526,080

* Includes invested and matching shares.

There were no share awards exercisable at either 31 December 2012 or 2011.

The weighted average contractual life for the share awards outstanding as at 31 December 2012 was 1.1 years (2011: 1.1 years).

The charge recognised in the 2012 statement of comprehensive income in relation to matching share awards amounted to US$701,000 (2011: US$308,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

19. Share-based payment plans continued

Restricted Share Plan (RSP)

Under the Restricted Share Plan scheme, employees are granted shares in EnQuest over a discretionary vesting period, which may or may not be, at the direction of the Remuneration Committee of the Board of Directors of EnQuest, subject to the satisfaction of performance conditions. Awards made in 2010, 2011 and 2012 under the RSP will vest over periods between one and four years. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices adjusted for an assumed vesting rate over the relevant vesting period.

Details of the fair values and assumed vesting rate of the RSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2012 awards	**123p**	**95%**
2011 awards	119p	95%
2010 awards	104p	98%

The following table shows the movement in the number of share awards held under the RSP scheme outstanding but not exercisable:

	2012 Number	2011 Number
Outstanding at 1 January	**8,036,955**	7,926,411
Granted during the year	**686,000**	829,845
Vested during the year	**(1,782,748)**	(298,515)
Forfeited during the year	**(94,172)**	(420,786)
Outstanding at 31 December	**6,846,035**	8,036,955
Exercisable at 31 December	**1,312,156**	268,177

The weighted average contractual life for the share awards outstanding as at 31 December 2012 was 1.2 years (2011: 1.7 years).

The charge recognised in the year ended 31 December 2012 amounted to US$2,572,000 (2011: US$3,767,000).

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted in 2011 and 2012 had three sets of performance conditions associated with them. One third of the award relates to Total Shareholder Return (TSR) against a comparator group of 36 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; one third relates to production growth per share, and one third relates to reserves growth per share, over the three year performance period. Awards will vest on the 3rd anniversary.

The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices adjusted for an assumed vesting rate over the relevant vesting period.

Details of the fair values and assumed vesting rate of the PSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2012 awards	**124p**	**97%**
2011 awards	137p	97%

The following table shows the movement in the number of share awards held under the PSP scheme outstanding but not exercisable:

	2012 Number	2011 Number
Outstanding at 1 January	**1,668,522**	–
Granted during the year	**3,021,117**	1,722,022
Forfeited during the year	**(87,000)**	(53,500)
Outstanding at 31 December	**4,602,639**	1,668,522

There were no share awards exercisable at either 31 December 2012 or 2011.

The weighted average contractual life for the share awards outstanding as at 31 December 2012 was 1.9 years (2011: 2.2 years).

19. Share-based payment plans continued

The charge recognised in the year ended 31 December 2012 amounted to US$1,802,000 (2011: US$806,000).

Sharesave Plan

The Group operates an approved savings related share option scheme. The Plan is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save over a specified period, either 3 or 5 years. The right to exercise the option is at the employee's discretion at the end of the period previously chosen, for a period of six months.

Details of the fair values and assumed vesting rates of the Sharesave plan are shown below:

	Weighted average fair value per share	Trued up vesting rate
2012 awards	**20p**	**93%**

The following shows the movement in the number of share options held under the Sharesave plan outstanding but not exercisable:

	2012 Number	2011 Number
Granted during the year	746,880	–
Forfeited during the year	(49,500)	–
Outstanding at 31 December	**697,380**	–

There were no share options exercisable at either 31 December 2012 or 2011.

The weighted average contractual life for the share options outstanding as at 31 December 2012 was 2.9 years (2011: nil).

The charge recognised in the 2012 statement of comprehensive income amounted to US$88,000 (2011: nil).

The Company has recognised a total charge of US$5,163,000 (2011:US$4,881,000) in the statement of comprehensive income during the year, relating to the above employee share-based schemes.

20. Loans and borrowings

Revolving credit facility

At 31 December 2011, the Group had US$156,250,000 of undrawn committed borrowing facilities available which expired in March 2012. On 6 March 2012, a new US$900,000,000 Multi-Currency Revolving Credit Facility Agreement with Lloyds TSB Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole CIB, NICB Bank and Royal Bank of Scotland was established. The new facility comprises a committed amount of US$525,000,000 for three years (subject to reserves), extendable to four years at the option of the Group (provided conditions are met) and a further year with the consent of the lenders. In addition, US$375,000,000 is available primarily for investment opportunities also with the lenders consent. The Letters of Credit (LoC) of US$123,750,000 under the old facility have been rolled into the new facility. The drawdown of US$34,600,000 at 31 December 2012 was subsequently repaid.

Interest on the revolving credit facility is payable at US LIBOR plus a margin of 2.25% to 3.25%, dependent on specified covenant ratios. A facility non-utilisation commitment fee is payable at 40% of the interest margin.

At 31 December 2012, US$34,600,000 was drawndown under the Group's facility agreement (2011: nil) and LoC utilisation was US$123,750,000 (2011: US$123,750,000).

The Group considers there to be no material difference between the fair values of the interest bearing loans and borrowings and the carrying amounts in the balance sheet.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

21. Other financial assets and financial liabilities

	2012 US$'000	2011 US$'000
Financial instruments at fair value through other comprehensive income		
Current liabilities		
Cash flow hedges:		
Forward foreign currency contracts	**121**	6,507
Non-current liabilities		
Cash flow hedges:		
Forward foreign currency contracts	**–**	335
Financial instruments at fair value through profit or loss		
Current assets		
Derivatives not designated as hedges:		
Commodity forward contracts	**1,170**	2,510
Current liabilities		
Derivatives not designated as hedges:		
Commodity forward contracts	**299**	363
Loans and receivables		
Current assets		
Other receivable	**95,302**	–
Non-current assets		
Other receivable	**19,447**	–
Other financial liabilities at amortised cost		
Current liabilities		
Other liability	**17,150**	–
Total current assets	**96,472**	2,510
Total non-current assets	**19,447**	–
Total assets	**115,919**	2,510
Total current liabilities	**17,570**	6,870
Total non-current liabilities	**–**	335
Total liabilities	**17,570**	7,205

The fair value measurements of the financial instruments held by the Group have been derived based on observable market inputs (as categorised within Level 2 of the fair value hierarchy under IFRS 7).

Commodity forward contracts
In November 2011, the Group entered into five separate put and call options in order to hedge the changes in future cash flows from the sale of oil production for approximately 3,000,000 barrels of oil in 2012 for accounting purposes. These instruments were deemed to be ineffective for hedging purposes and are therefore designated as at fair value through profit and loss (FVTPL). These derivative instruments had fully unwound by the end of December 2012 and therefore had no fair value (2011: US$2,147,000). The gains of US$2,147,000 recognised in 2011 were reversed during 2012 and are included within other finance costs.

In November 2012, the Group entered into three separate put and call options in order to hedge the changes in future cash flows from the sale of oil production for approximately 1,000,000 barrels of oil in the first quarter of 2013 for accounting purposes. These instruments were deemed to be ineffective for hedging purposes and are therefore designated as at fair value through profit and loss (FVTPL). The derivative instruments had a net asset fair value of US$871,000 (2011: nil) and gains of US$871,000 (2011: nil) were taken into profit and loss during the year and are included within other finance income.

Forward foreign currency contracts
During the year ended 31 December 2011, the Group had also entered into 11 forward currency contracts to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. These contracts qualified for hedge accounting. At 31 December 2012 only three of the original contracts were in place with a total fair value liability of US$121,000 (2011: US$6,842,000). The movement through other comprehensive income during the year is an unrealised gain of US$2,554,000 (2011: US$2,600,000 loss) net of a deferred tax credit of US$4,167,000 (2011: US$4,242,000 charge). The impact in profit or loss during the year was an expense of US$2,903,000 (2011: US$113,000) in respect of these contracts.

21. Other financial assets and financial liabilities continued

Other receivable

As disclosed in note 4, as part of the farm out to KUFPEC of 35% of the Alma/Galia development, KUFPEC will carry EnQuest up to a cap of US$182,000,000 and agreed to pay EnQuest a total of US$23,292,000 after production commences over a period of 36 months. Receivables have been recognised for both these:

- The carry element is being unwound over the period of the carry and at 31 December 2012 the remaining balance was US$95,302,000;
- A receivable has been recognised for the additional payments at its fair value of US$19,300,000. The unwinding of the discount on these future payments will be included within finance income in the income statement.

Other liability

Under the KUFPEC agreement a 'balancing payment' was also agreed whereby should the cost of development exceed US$1,055,000,000 then EnQuest would be required to pay 17.5% of costs up to a cap on the cost of development of US$1,153,000,000. As costs are now expected to exceed the cap EnQuest will be liable to pay these additional costs, resulting in the recognition of a US$17,150,000 liability.

22. Provisions

	Decommissioning US$'000
At 1 January 2011	140,108
Additions during the year	33,821
Changes in estimates	16,901
Unwinding of discount	7,793
Utilisation	(17,386)
At 31 December 2011	181,237
Additions during the year	37,609
Farm in to West Don	14,569
Farm out of Alma/Galia development	(7,054)
Changes in estimates	10,061
Unwinding of discount	10,148
Utilisation	(13,618)
At 31 December 2012	**232,952**

Provision for decommissioning

The Group makes full provision for the future costs of decommissioning its oil production facilities and pipelines on a discounted basis. With respect to the Heather field, the decommissioning provision is based on the Group's contractual obligation of 37.5% of the decommissioning liability rather than the Group's equity interest in the field.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2030 assuming no further development of the Group's assets. The liability is discounted at a rate of 5.0% (2011: 5.0%). The unwinding of the discount is classified as a finance cost (note 6).

These provisions have been created based on internal and third party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices which are inherently uncertain.

23. Trade and other payables

	2012 US$'000	2011 US$'000
Trade payables	**81,885**	26,215
Accrued expenses	**232,877**	192,494
Other payables	**14,904**	15,628
	329,666	234,337

Trade payables are non-interest bearing and are normally settled on terms of between 10 and 30 days. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling.

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

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation to their fair value.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

24. Commitments and contingencies

Commitments

(i) Operating lease commitments

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

	2012 US$'000	2011 US$'000
Not later than one year	**2,025**	1,372
After one year but not more than five years	**4,781**	2,170
Over five years	**2,772**	–
	9,578	3,542

Lease payments recognised as an operating lease expense during the year amounted to US$2,324,819 (2011: US$2,066,054).

Under the Dons Northern Producer Agreement a minimum notice period of twelve months exists whereby the Group expects the minimum commitment under this agreement to be approximately US$46,000,000 (2011: US$47,000,000).

(ii) Finance lease commitments

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

	2012 Minimum payments US$'000	2012 Present value of payments US$'000	2011 Minimum payments US$'000	2011 Present value of payments US$'000
Due in less than one year	**37**	**34**	–	–
Due in more than one year but not more than five years	**110**	**107**	–	–
	147	**141**	–	–
Less future financing charges	**(6)**	**–**	–	–
	141	**141**	–	–

The leases are fixed rate leases with an effective borrowing rate of 2.37% and have an average remaining life of three years.

(iii) Capital commitments

At 31 December 2012, the Group had capital commitments excluding the above lease commitments amounting to US$203,620,000 (2011: US$310,408,000).

Contingencies

At 31 December 2012, potential future commitments included US$45,000,000 contingent consideration due to Canamens Limited after acquisition of two of its companies, US$5,000,000 in respect of the Group's interest in Block 9/2b in the UK North Sea (Kraken) and a further potential commitment of £7,000,000 (US$11,200,000) is due in respect of back-in payments associated with the sole risk drilling undertaken by the previous operator on the Kraken 9/2b-04 appraisal well and 9/2b-04z exploration sidetrack. During 2012 EnQuest acquired interests in Kraken from Nautical Petroleum plc (25%) and First Oil plc (15%). The amounts payable are US$150,000,000 to US$240,000,000 and US$90,000,000 to US$144,000,000 respectively, linked to independent reserves determination between 100 Mboe and 166 Mboe. All will become payable upon approval of the Kraken Field Development Plan (FDP) by the Department of Energy and Climate Change. The FDP is expected to be submitted in the first half of 2013.

As part of the KUFPEC farm in agreement, a reserves protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If on 1 January 2017, KUFPEC's costs to first production have not been recovered or deemed to have been recovered, EnQuest will pay to KUFPEC an additional 20% share of net revenue (giving them 55% in total). This additional revenue is to be paid from January 2017 until the actual net revenue or the deemed net revenue equals or exceeds the costs to first oil.

In addition, there is contingent consideration of US$20,000,000 after the acquisition of Nio (Sabah) Limited which will be determined based on 2P reserves associated with an approved FDP on Blocks SB307 and SB308 in Malaysia. An exploration/appraisal well is expected to be drilled in the area in the second half of 2013.

There is also deferred consideration of US$3,000,000 dependent on FDP approval in relation to the 20% interest in Kildrummy acquired from ENI UK Limited during the year.

25. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 28 to these Group financial statements.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. There have been no transactions with related parties who are not members of the Group during the year ended 31 December 2012 (2011: nil).

Compensation of key management personnel

The following table details remuneration of key management personnel of the Group comprising Executive and Non-Executive Directors of the Company and other senior personnel:

	2012 US$'000	2011 US$'000
Short term employee benefits	4,306	3,849
Share-based payments	4,086	2,850
Post employment pension benefits	30	29
	8,422	6,728

26. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of these financial instruments is to manage short term cash flow and raise finance for the Group's capital expenditure programme.

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2012 and 2011 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

The Group is exposed to the impact of changes in Brent oil prices on its revenues and profits generated from sales of crude oil.

During 2010, the Board of EnQuest approved a policy to hedge up to a maximum of 50% of annual oil production. In November 2011, the Group entered into five separate put and call options to hedge approximately 3,000,000 barrels of oil in 2012. During November 2012, the Company entered into a further three put and call options, to hedge approximately 1,000,000 barrels of oil in the first quarter of 2013. Since the year end the Group has entered into further put and call options covering 3,600,000 barrels of oil production for 2013.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price, with all other variables held constant:

	Pre-tax profit		Total equity	
	+US$10/Bbl increase US$'000	–US$10/Bbl decrease US$'000	+US$10/Bbl increase US$'000	–US$10/Bbl decrease US$'000
31 December 2012	**76,337**	**(76,323)**	**29,008**	**(29,003)**
31 December 2011	70,836	(67,500)	26,918	(25,650)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the Group's functional currency. The Group manages this risk by converting United States dollar receipts at spot rates periodically and as required for payments in other currencies. Approximately 1% (2011: 2%) of the Group's sales and 89% (2011: 89%) of costs are denominated in currencies other than the functional currency.

During the year ended 31 December 2011, the Group had entered into 11 forward currency contracts to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. At 31 December 2012 only three of these contracts remained and are due to mature in 2013. These contracts qualify for hedge accounting and have been disclosed within note 21.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

26. Risk management and financial instruments continued

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets and liabilities) of a reasonably possible change in the United States dollar to GBP Sterling exchange rate:

	Pre-tax profit		Total equity	
	+10% US dollar rate increase US$'000	–10% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	–10% US dollar rate decrease US$'000
31 December 2012	**(24,918)**	**24,918**	**(9,234)**	**9,234**
31 December 2011	(25,056)	25,056	1,438	(1,438)

Credit risk

The Group trades only with recognised, international oil and gas operators and at 31 December 2012 there were no trade receivables past due (2011: nil), and US$4,078,000 of joint venture receivables past due but not impaired (2011: US$705,000). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables:	2012 US$'000	2011 US$'000
Less than 30 days	**143**	7
30-60 days	**144**	–
60-90 days	**78**	622
90-120 days	**89**	21
120+ days	**3,624**	55
	4,078	705

At 31 December 2012, the Group had one customer accounting for 87% of outstanding trade and other receivables (2011: one customer, 92%) and three joint venture partners accounting for 90% of joint venture receivables (2011: six joint venture partners, 80%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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.

Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of these facilities. Specifically the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants. Throughout the year and at 31 December 2012 the Group was in compliance with all financial covenant ratios agreed with its bankers.

On 6 March 2012, a new US$900,000,000 Multi-Currency Revolving Credit Facility Agreement with Lloyds TSB Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole CIB, NICB Bank and Royal Bank of Scotland was established. The new facility comprises a committed amount of US$525,000,000 for three years (dependent upon reserves), extendable to four years at the option of the Group (provided conditions are met) and a further year with the consent of the lenders. In addition, US$375,000,000 is available primarily for investment opportunities also with the lenders consent. The Letters of Credit of US$123,750,000 under the old facility were rolled into the new facility and have subsequently increased to US$181,500,000. An upfront arrangement fee of 1.75% was payable.

Interest on the revolving credit facility is payable at LIBOR relative to each agreed loan period plus a margin of 2.25% to 3.25% dependent on the Group's leverage ratio. Facility non-utilisation commitment fees are payable at 40% of the interest margin.

26. Risk management and financial instruments continued

The maturity profiles of the Group's non-derivative financial liabilities are as follows:

Year ended 31 December 2012	On demand US$'000	Up to 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	Total US$'000
Loans and borrowings	–	–	–	34,600	34,600
Obligations under finance leases	–	34	35	72	141
Accounts payable and accrued liabilities	329,666	–	–	–	329,666
Financial expenses	–	1,123	–	–	1,123
Other liability	–	17,150	–	–	17,150
	329,666	18,307	35	34,672	382,680

Year ended 31 December 2011	On demand US$'000	Up to 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	Total US$'000
Accounts payable and accrued liabilities	234,337	–	–	–	234,337
Financial expenses	–	922	–	–	922
	234,337	922	–	–	235,259

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis.

Year ended 31 December 2012	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 2 years US$'000	>2 years US$'000	Total US$'000
Foreign exchange forward contracts	–	6,298	–	–	–	6,298
Foreign exchange forward contracts	–	(6,298)	–	–	–	(6,298)
	–	–	–	–	–	–

Year ended 31 December 2011	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 2 years US$'000	>2 years US$'000	Total US$'000
Foreign exchange forward contracts	–	50,691	219,750	25,395	–	295,836
Foreign exchange forward contracts	–	(50,691)	(219,750)	(25,395)	–	(295,836)
	–	–	–	–	–	–

At 31 December 2011 and 2012, the Group held commodity forward contracts for which, based on the oil price at 31 December 2011 and 2012, there were no projected contracted cash flows.

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 20 and 24, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves, and retained earnings as in the Group Statement of Changes in Equity on page 64.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility for future acquisitions. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required. Note 20 to the financial statements provides further details of the Group's financing activity.

The Group also has approval from the Board to hedge the exchange risk on up to 70% and 50% of the non US dollar portion of the Group's annual capital budget and operating expenditure respectively, and up to 50% of annual production. This is designed to minimise the risk of adverse movements in exchange rates and prices eroding the return on the Group's projects and operations.

The Board regularly reassesses the existing dividend policy to ensure that shareholder value is maximised. It continues to believe that, in the light of the Group's significant capital projects and exploration and acquisition opportunities, the enhancement of shareholder value can best be achieved by reinvesting the Group's cash. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

26. Risk management and financial instruments continued

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

	2012 US$'000	2011 US$'000
Loans and borrowings, net (A)	**34,741**	–
Cash and short term deposits	**(124,522)**	(378,907)
Net debt/(cash) (B)	**(89,781)**	(378,907)
Equity attributable to EnQuest PLC shareholders (C)	**1,293,869**	934,208
Profit for the year attributable to EnQuest PLC shareholders (D)	**362,218**	60,991
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**259,665**	136,053
Gross gearing ratio (A/C)	**0.027**	n/a
Net gearing ratio (B/C)	**n/a**	n/a
Shareholders' return on investment (D/C)	**28%**	7%
Shareholders' return on investment excluding exceptionals (E/C)	**20%**	15%

27. Post balance sheet events

In December 2012, a Sale and Purchase Agreement was executed in respect of the sale of the P8A licence to Van Dyke Energy for an initial consideration of US$3,000,000 plus a contingent payment of a further US$3,000,000 payable once the field incorporating the licence reaches gross sales volumes of 2.5 million barrels. The carrying value was US$45,000 at 31 December 2012. This is expected to complete in the first half of 2013.

On 21 January 2013 the Group received formal consent from the Department of Energy and Climate Change in respect of the Thistle Late Life Extension (LLX) development. The incremental reserves targeted by the development will receive Additionally Developed Oil Field Allowance in excess of £200,000,000 (US$320,000,000). This is a new field allowance announced by the Government in 2012 to help mature fields in the UKCS and will apply when the taxation legislation receives Royal Assent in 2013.

On 23 January 2013, EnQuest Britain Limited agreed with CIECO Energy (UK) Limited to acquire two of its affiliate companies which together hold a total of an 8% non-operated interest in the producing oil field Alba, in the UK Continental Shelf. The acquisition completed on 22 March 2013, with consideration, net of cash acquired, totalling £19,622,000 (US$29,700,000) plus a further deferred cash consideration of up to £500,000 (US$800,000) contingent on certain project milestones.

In February 2013, the Group issued a 5.5% Sterling Retail Bond through the Order Book for Retail Bonds of the London Stock Exchange (ORB). The Bonds raised £145,000,000 and will pay a fixed gross rate of interest of 5.5% per annum until 2022.

28. Subsidiaries

At 31 December 2012, EnQuest PLC had investments in the following principal subsidiaries:

Name of Company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest North Sea BV	Intermediate holding company	Netherlands	100%
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Dons Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Oceania Limited(i)	Exploration, extraction and production of hydrocarbons	Cayman Islands	100%
EnQuest Heather Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited(i)	Extraction and production of hydrocarbons	England	100%
Stratic Energy (UK) Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
Grove Energy Limited(i)	Intermediate holding company and exploration of hydrocarbons	Canada	100%
EnQuest ENS Limited(i)	Extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited(i)	Leasing	England	100%
Nio Petroleum (Sabah) Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC

We have audited the parent Company financial statements of EnQuest PLC for the year ended 31 December 2012 which comprise the Company Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 93, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of EnQuest PLC for the year ended 31 December 2012.

Ernst & Young LLP
Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 March 2013

COMPANY BALANCE SHEET
AT 31 DECEMBER 2012

	Note	2012 US$'000	2011 US$'000
Fixed assets			
Investments	3	**1,449,179**	1,203,291
Current assets			
Debtors	5	**32,196**	13,487
Cash at bank and in hand	4	**160**	155
		32,356	13,642
Creditors: amounts falling due within one year	8	**(265,833)**	(39,197)
Net current liabilities		**(233,477)**	(25,555)
Total assets less current liabilities		**1,215,702**	1,177,736
Creditors: amounts falling due after one year	7	**–**	(335)
Net assets		**1,215,702**	1,177,401
Share capital and reserves			
Called up share capital	9	**61,249**	61,249
Share premium account	10	**52,184**	52,184
Merger reserve	10	**1,081,890**	1,081,890
Other reserve	10	**40,143**	–
Cash flow hedge reserve	10	**–**	(4,026)
Share-based payment reserve	10	**(11,072)**	(5,961)
Profit and loss account	10	**(8,692)**	(7,935)
		1,215,702	1,177,401

The attached notes 1 to 14 form part of these Company financial statements.

The financial statements on pages 95 to 100 were approved by the Board of Directors on 26 March 2013 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Corporate information

The Company financial statements of EnQuest PLC (the Company) for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 26 March 2013.

EnQuest PLC (EnQuest or the Company) is a limited liability Company registered in England and is the holding Company for the Group of EnQuest subsidiaries (together 'the Group').

The Group's principal activities are the exploration for, and extraction and production of hydrocarbons in the UK Continental Shelf.

2. Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared in accordance with applicable UK Accounting Standards on a historical cost basis. The functional and presentation currency of the separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. EnQuest reported a loss for the financial year ended 31 December 2012 of US$757,000 (2011: profit US$436,000). There were no other recognised gains or losses in the period (2011: nil).

Going concern concept

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. See page 48 in the Directors' Report for further details.

Investments

Investments are stated at cost less any provision for impairment.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Amounts due from/to subsidiaries

Amounts due from/to subsidiaries are non-interest bearing short term funding to and from subsidiaries.

These are recognised at the fair value of consideration received or paid. Amounts receivable are stated net of any provision for impairment.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group categorises derivatives as follows:

Cash flow hedge

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised through the statement of total recognised gains and losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in shareholders' equity are transferred to the profit and loss account in the period when the hedged item will affect the profit or loss. When the hedged item no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders' equity is transferred to the profit and loss account when the forecast transaction which was the subject of the hedge occurs.

Derivatives that do not qualify for hedge accounting

When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the profit and loss account.

Employee benefit trust

EnQuest shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the profit and loss account on the purchase, sale, issue or cancellation of equity shares.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) of EnQuest.

2. Summary of significant accounting policies continued

Equity-settled transactions

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

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit and loss account charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market or non-vesting conditions, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the profit and loss account.

The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail within note 19 of the Group financial statements.

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

3. Investments

	Unlisted subsidiary undertakings US$'000	Other listed investments US$'000	Total US$'000
Cost			
At 1 January 2011	1,197,602	–	1,197,602
Additions	4,881	808	5,689
At 31 December 2011	1,202,483	808	1,203,291
Additions	859,319	–	859,319
Disposals	(613,431)	–	(613,431)
At 31 December 2012	**1,448,371**	**808**	**1,449,179**
Net book value			
At 31 December 2012	**1,448,371**	**808**	**1,449,179**
At 31 December 2011	1,202,483	808	1,203,291
At 31 December 2010	1,197,602	–	1,197,602

During the year ended 31 December 2012, the Company acquired Canamens Energy North Sea Limited and Canamens UK 814 and 815 Limited which were subsequently renamed to EnQuest ENS Limited and EnQuest UKCS Limited.

On 7 December 2012, as part of a group reorganisation, the investment in Stratic UK Holdings Limited was transferred by the Company from the subsidiary entity Stratic Energy Corporation before subsequently being transferred to EnQuest Britain Limited along with investments in EnQuest ENS Limited, EnQuest UKCS Limited and EnQuest Dons Limited in exchange for new shares in EnQuest Britain Limited. Also, the subsidiary entity EnQuest North Sea BV transferred its investment in EnQuest Britain Limited to the Company.

In addition a new subsidiary EnQuest Norge AS was established in Norway on 27 June 2012.

Details of the Company's principal subsidiaries at 31 December 2012 are provided in note 28 of the Group financial statements.

The interest in other listed investments at the end of the year is part of the Group's 16% investment in the ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

4. Cash at bank and in hand

	2012 US$'000	2011 US$'000
Cash at bank and in hand	**160**	155

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation to their fair value.

5. Debtors

	2012 US$'000	2011 US$'000
Amounts due from subsidiaries	**30,412**	8,313
Derivative financial instruments (note 7)	**1,170**	2,510
Deferred tax asset (note 6)	**–**	2,664
Corporation tax recoverable	**614**	–
	32,196	13,487

6. Deferred tax

The movements in the deferred tax asset recognised by the Company during the current year are as follows:

	Tax losses US$'000	Other timing differences US$'000	Total US$'000
At 1 January 2012	1,250	1,414	2,664
Charge to profit and loss account	(1,250)	–	(1,250)
(Charge)/credit to cash flow hedge reserve	–	(1,414)	(1,414)
At 31 December 2012	**–**	**–**	**–**

The Company has unused UK mainstream corporation tax losses of US$1,980,000 (2011: nil) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

7. Derivative financial instruments

	2012 US$'000	2011 US$'000
Financial instruments: cash flow hedges		
Creditors: amounts falling due within one year		
Cash flow hedges:		
Forward foreign currency contracts	**121**	5,105
Creditors: amounts falling due after more than one year		
Cash flow hedges:		
Forward foreign currency contracts	**–**	335
Financial instruments at fair value through profit or loss		
Assets due within one year		
Derivatives not designated as hedges:		
Commodity forward contracts	**1,170**	2,510
Creditors: amounts falling due within one year		
Derivatives not designated as hedges:		
Commodity forward contracts	**299**	363
Total assets due within one year	**1,170**	2,510
Total assets	**1,170**	2,510
Total creditors: amounts falling due within one year	**420**	5,468
Total creditors: amounts falling due after more than one year	**–**	335
Total liabilities	**420**	5,803

7. Derivative financial instruments continued

Included within amounts falling due from/to subsidiaries are amounts relating to internal back to back derivatives with subsidiary entities for the above external derivatives (which are fair valued through profit and loss).

Full details of the Group's financial risk management objectives and procedures can be found in note 26 of the Group financial statements. As the holding company for the Group, the Company faces similar risks over foreign currency and changes in oil prices.

The Company has taken advantage of the exemption under FRS 29 for parent Company accounts. The disclosures are included within the Group's financial statements.

In November 2011, the Company entered into five separate put and call options on behalf of its subsidiaries; EnQuest Heather Limited, EnQuest Thistle Limited, EnQuest Dons Limited and Stratic Energy (UK) Limited; in order to hedge the changes in future cash flows from the sale of Brent oil production in 2012. These instruments were deemed to be ineffective and were designated as at fair value through profit and loss (FVTPL). These derivative instruments had fully unwound by the end of December 2012 and therefore had no fair value (2011: US$2,147,000). The gains of US$2,147,000 recognised in 2011 were reversed during 2012 within profit and loss.

During November 2012, the Company entered into a further three separate put and call options on behalf of its subsidiary EnQuest Heather Limited, in order to hedge the changes in future cash flows from the sale of Brent oil production in 2013. These instruments were deemed to be ineffective and are therefore designated as at fair value through profit and loss (FVTPL). Gains of US$871,000 (2011: US$2,147,000) were taken into profit and loss during the year.

During the year ended 31 December 2011, the Company had entered into nine forward currency contracts on behalf of its subsidiaries; EnQuest Heather Limited, EnQuest Thistle Limited and EnQuest Dons Limited to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. At 31 December 2012 only three of the original contracts were in place of which all will mature in 2013. These contracts qualify for hedge accounting in the Group financial statements (see note 21 of the Group financial statements). At the balance sheet date, the fair value of these derivatives was a liability of US$121,000 (2011: US$5,440,000). The amounts in the cash flow hedge reserve of US$4,026,000 net of deferred tax liability of US$1,414,000 were reclassified to profit and loss during the period.

8. Creditors: amounts falling due within one year

	2012 US$'000	2011 US$'000
Amounts due to subsidiaries	**265,055**	33,108
Derivative financial instruments (note 7)	**420**	5,468
Accruals	**358**	621
	265,833	39,197

9. Issued share capital

	2012 US$'000	2011 US$'000
Allotted, called up and fully paid		
802,660,757 (2011: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249

On 14 April 2011, 3,197,852 Ordinary shares of £0.05 each were issued at par and allotted to the Company's Employee Benefit Trust to satisfy awards made under the Company's share-based incentive schemes.

At 31 December 2012 there were 22,966,471 shares held by the Employee Benefit Trust (2011: 18,139,465) due to the purchase of shares to satisfy awards made under the Company's share-based incentive schemes.

10. Reserves

	Share premium US$'000	Merger reserve US$'000	Other reserve US$'000	Cash flow hedge reserve US$'000	Share-based payments reserve US$'000	Retained (losses) US$'000	Total US$'000
At 1 January 2012	52,184	1,081,890	–	(4,026)	(5,961)	(7,935)	1,116,152
Loss recognised on cash flow hedges	–	–	–	4,026	–	–	4,026
Share-based payments charge	–	–	–	–	5,163	–	5,163
Loss for the year	–	–	–	–	–	(757)	(757)
Return of capital from subsidiary	–	–	40,143	–	–	–	40,143
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(10,274)	–	(10,274)
At 31 December 2012	**52,184**	**1,081,890**	**40,143**	**–**	**(11,072)**	**(8,692)**	**1,154,453**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2012

10. Reserves continued
Nature and purpose of other reserves

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

Merger reserve
The Group merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued, where merger relief applies to the transaction.

Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative portion of gains or losses on hedging instruments deemed effective in cash flow hedges.

Other reserve
The other reserve is used to record any other transactions taken straight to reserves as non-distributable. During the year as part of the group reorganisation, the investment in Stratic UK Holdings Limited was transferred from a subsidiary entity Stratic Energy Corporation which resulted in a return of capital of US$20,932,000. In addition an intra-group promissory note was transferred from Stratic Energy Corporation as a return of capital of US$19,211,000.

Share-based payments reserve
The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards.

Share-based payment plan information is disclosed in note 19 of the Group financial statements.

11. Transactions with Directors
Details of Directors' remuneration are provided in the Directors' Remuneration Report.

12. Related party transactions
The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with its wholly owned subsidiaries. There were no other related party transactions during the year (2011: nil).

13. Auditors' remuneration
The Company paid US$10,080 (2011: US$9,600) to its auditors in respect of the audit of the financial statements of the Company.

Fees paid to the Group's auditor and its associates for non-audit services are not disclosed in the individual accounts of the Company because group financial statements are prepared which are required to disclose such fees on a consolidated basis.

14. Post balance sheet events
Refer to note 27 of the Group financial statements.

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Financial Calendar
29 May 2013: 2013 Annual General Meeting
August 2013: 2013 Half Year Results

Glossary
For a full list of Company definitions, please visit the Glossary in the media centre section of our website www.enquest.com.

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

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