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UNIQUELY POSITIONED FOR GROWTH

EnQuest PLC
Annual Report and Accounts 2013

An independent oil and gas development and production company

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

UNIQUELY POSITIONED

TECHNICAL SKILLS

The Alma/Galia and Kraken developments exemplify how EnQuest is a leading force in integrated development. The Greater Kittiwake Area transaction fits within EnQuest's goals of managing maturing fields and exploiting nearby discoveries and near field exploration opportunities; it demonstrates EnQuest's skills as a proven acquirer of assets.

See pages 5, 10, 12, 17, 18 and 24 et seq

OPERATING SCALE

At the end of 2013, EnQuest had a direct workforce of approximately 600, or 1,800 including offshore contractors. EnQuest has a breadth and depth of in-house expertise which is matched by few, if any, UK oil companies of its size.

See pages 4, 5, 6, 8, 10, 12, 17, 18 and 24 et seq

FINANCIAL STRENGTH

With its strong balance sheet and strong cash flow generation, combined with its technical skills and operating scale, EnQuest is reinforcing its position as one of the top independent development partners of choice in the UK North Sea.

See pages 5, 7, 14, 15, 19 and 34 et seq

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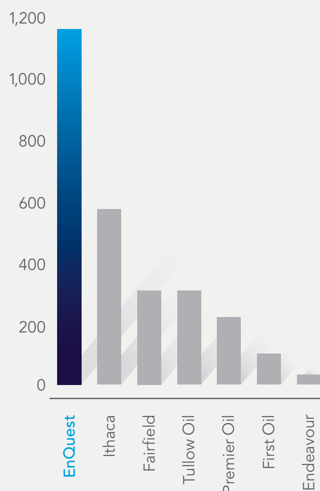
LARGEST UK INDEPENDENT PRODUCER IN THE UK NORTH SEA

Total production for the year ending November 2013

Total production in mass units ('000 Tonnes)



Source: Department of Energy and Climate Change Statistics

For more information visit **www.enquest.com**

HIGHLIGHTS

Reserves
(MMboe)

+51.6%

Production
(Boepd)

+6.2%

Cash flow from operations
($ million)

-5.3%

2013

- A 52% increase in net 2P reserves, including the positive impact of delivering the sanction of the Kraken development and increasing the life of the Alma/Galia field. A reserves replacement ratio of over 850%.
- 6.2% year on year production growth, underpinned by high operational up-times and strong reservoir performance. A well executed 2013 drilling programme, with a strong performance from Thistle, including a new production well. Broom also delivered good well performance.
- Good $563 million cash flow from operations and strong $621 million EBITDA[1] pre-exceptionals and fair value adjustments.
- The agreed acquisition of 50% of the Greater Kittiwake Area ('GKA') assets, close to EnQuest's Scolty/Crathes discoveries and to the Avalon prospect; providing an additional UK hub and adding 4.7 MMboe to reserves and c.2,000 Boepd of net production.
- A further strengthened funding position, with a new credit facility for up to $1.7 billion and a £155 million retail bond.

2014 AND BEYOND

- EnQuest plans to deliver over 15 wells in 2014.
- Alma/Galia production to start up in H2 2014, adding approximately 50% to EnQuest's average daily production.
- Targeting net average 2014 EnQuest production of between 25,000 Boepd and 30,000 Boepd.
- Kraken vessel conversion to commence and further appraisal drilling to assess upside potential.
- Integration into EnQuest of production operations on the Greater Kittiwake Area in the UKCS and the Didon field in Tunisia.
- Drilling of Cairngorm appraisal well.
- Drilling of an exploration well on Avalon.
- EnQuest's end 2013 reserves have a life of over 20 years.
- 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.

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, write-off of intangible oil and gas assets and foreign exchange movements.

OUR YEAR IN REVIEW

KEY ACHIEVEMENTS

"EnQuest is well positioned for sustainable growth"

Amjad Bseisu Chief Executive

ENQUEST VALUES

CREATIVITY

My definition of creativity is the ability to manipulate ideas to meet a need or solve a problem; the ability to explore and think freely and to create ideas. These define you as a person or in a team environment. At EnQuest, our daily business is dynamic and in the world of offshore operations being creative in our thinking is key to problem solving on a daily basis to deliver our targets. One of the many reasons I enjoy working for EnQuest is the opportunities the company gives you to express yourself, both as an individual and as part of a team of energetic professionals.

John Telford
Operations Manager

Q1

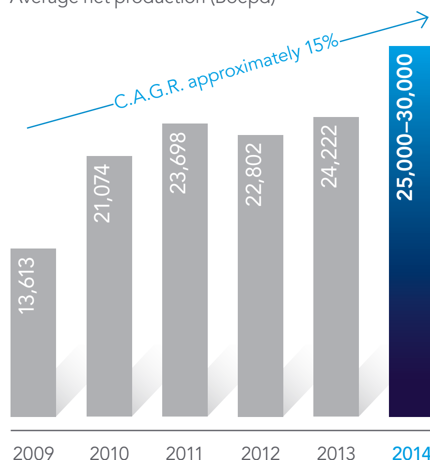
Achievements

- Successfully issued £145 million of retail bonds. The first such UK bonds to be issued in the Oil & Gas sector.
- Sanctioned the next phase of the Thistle LLX extension, following confirmation the project was eligible for a 'brownfield' tax allowance.
- Acquired 8% interest in the Alba producing oil field, providing net 2P reserves of 5.9 MMboe.
- Increased gross 2P reserves for Alma/Galia from 29 MMboe to 34 MMboe by extending the field life.
- Tied-in the new W6 injector well on West Don.
- Secured the formal award of the licences offered to EnQuest in the 27th UK licensing round.
- Took on direct duty holder responsibility for EnQuest's UK operations.
- Achieved one million man-hours without any lost time incidents ('LTI's) on the EnQuest Producer project.

Set to deliver C.A.G.R.[1] of over 15% between 2009 and 2014

Well ahead of long term target of an average of 10% growth p.a.

Average net production (Boepd)



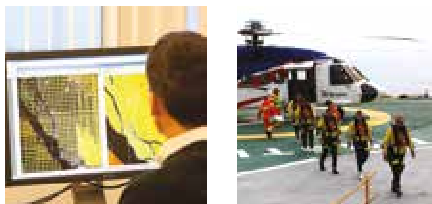
1. Compound annual growth rate

Q2

Achievements

- Submitted the Field Development Plan ('FDP') for the Kraken development. Drilled a Kraken appraisal well, the results of which confirmed the North Kraken area; a second separate field, with a second separate £800 million heavy oil tax allowance.
- Announced EnQuest's entry into North Africa, through a 70% operating interest in the producing Didon oil field and the Zarat Permit in Tunisia, including 2 MMboe of net producing 2P oil reserves in Didon and over 40 MMboe of net contingent resources in Zarat.
- Delivered the EnQuest Producer vessel's departure from dry dock on schedule and finished putting the main elements of the subsea system in place.
- Achieved one year of operation without an LTI on the Northern Producer floating production facility.

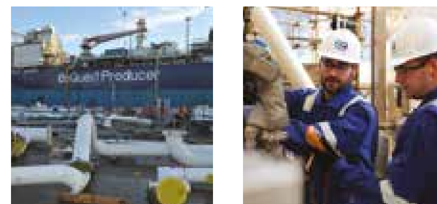
Q3



Achievements

- Farmed out 55% of the Cairngorm discovery on a promoted basis. EnQuest remains as the operator.
- Acquired a 50% interest in the Avalon prospect, close to the Scolty and Crathes discoveries. EnQuest to operate a 2014 exploration well.
- Announced acquisition of a 50% interest in the Greater Kittiwake Area ('GKA'), close to the Scolty and Crathes discoveries, creating a new EnQuest development and production hub.
- Completed and brought onstream the Don South West Area 6 injector well.
- Achieved six years free of LTIs on Thistle's drilling operations.
- Started production from the new well on the Thistle Western Fault Block.

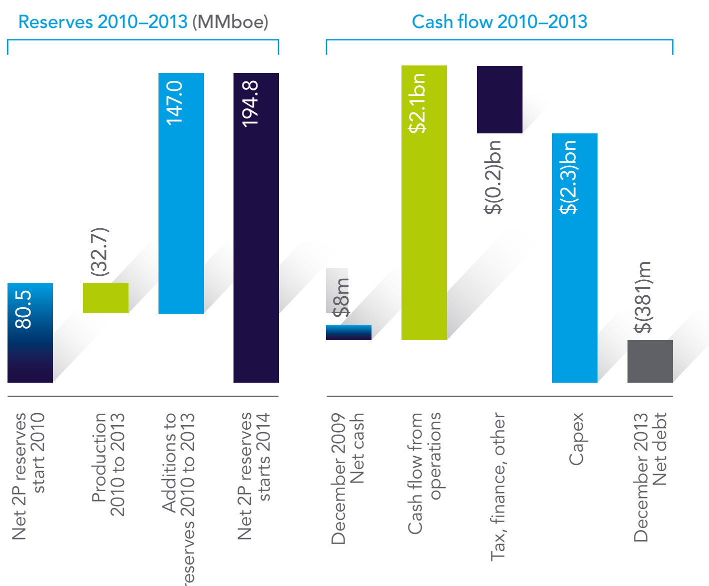
Q4



Achievements

- Secured the regulator's sanction of the Kraken Field Development Plan; EnQuest and its partners then sanctioned the Kraken development, increasing EnQuest's net 2P reserves by over 60 MMboe. Kraken to become EnQuest's sixth producing hub, after Alma/Galia and GKA.
- Established a new six year credit facility for up to $1.7 billion, providing capacity both for existing projects and for new opportunities, including a $500 million accordion facility.
- Completed the reactivation of the Heather drilling rig.
- Provided much improved power redundancy on Thistle through the rebuilt B and new D turbine generators.
- Formal signing of the Kraken floating, production, storage and offloading vessel contract with Malaysian based firm, Bumi Armada Berhad.
- Relocated the EnQuest Producer vessel to a UK yard, on the Tyne, for finishing and commissioning work.

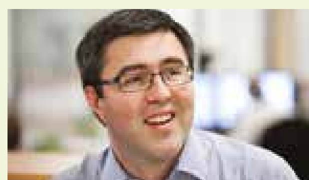
Four years of strong cash flow generation: 450% reserve replacement ratio, reserve life over 20 years



ENQUEST VALUES

COLLABORATION

Kraken is a transformational project for EnQuest. As the project team we work together in a collaborative manner across our different disciplines to ensure that all the pieces of this complex jigsaw come together at the right time.



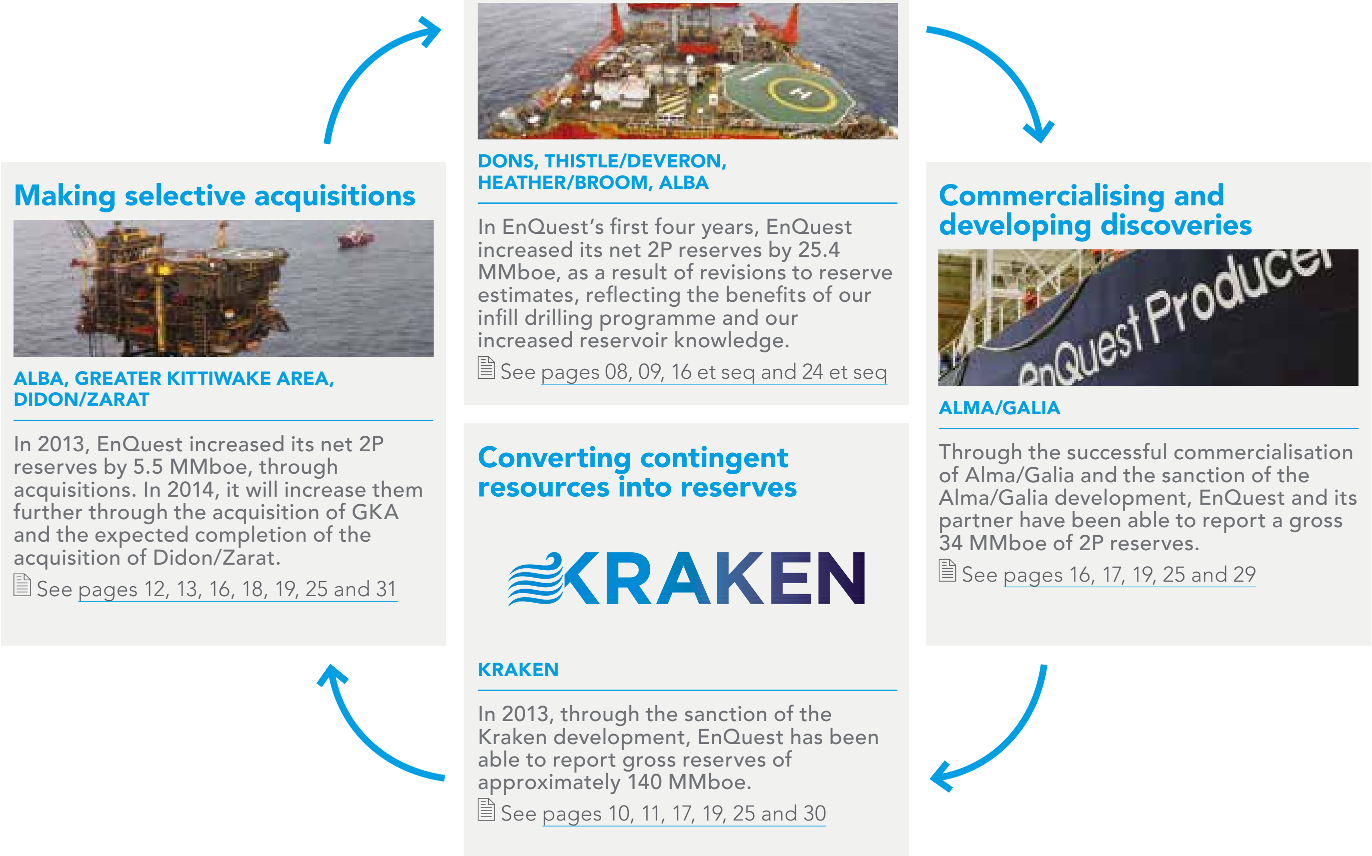
Malcolm Coutie
Senior Drilling Engineer, Kraken

OUR STRATEGY

STRATEGIC FRAMEWORK

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.

DELIVERING SUSTAINABLE GROWTH



MARKET OPPORTUNITY

EnQuest targets development and production opportunities in maturing basins, developments which are not large enough to be of interest to the major global oil companies. In-house EnQuest has the full spectrum of integrated technical capabilities needed to successfully deliver new oil field developments; combining subsurface, facilities planning and drilling. EnQuest believes that these technical skills, combined with its operational scale and its financial strength, leave EnQuest uniquely well positioned to deliver its sustainable growth strategy.

As a company of substantial size, with high levels of cash generated from operations, EnQuest has good access to capital and has a strong balance sheet, providing capacity to acquire new assets. Sellers of oil field assets need buyers who not only have the required funding, but who have the necessary technical and operational capabilities, essential for the subsequent safe and effective management of the assets; EnQuest has all of these capabilities. Generally, the flow of assets available to EnQuest for possible acquisition has increased, facilitating potential new acquisition projects, such as EnQuest's recent acquisition of the Greater Kittiwake Area ('GKA') assets.

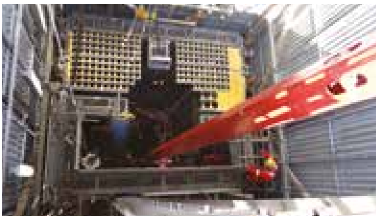
OUR BUSINESS MODEL

REALISING VALUE THROUGH CAPABILITY

We believe that EnQuest has the right mix of capabilities for its business model, focused on development and production opportunities in maturing basins, opportunities which are not material enough for major oil companies. EnQuest has the full spectrum of integrated technical capabilities needed to deliver new oil field developments successfully; combining subsurface, facilities planning and drilling. EnQuest has substantial operational scale.

FOCUSED ON HUBS

FIELD LIFE EXTENSIONS



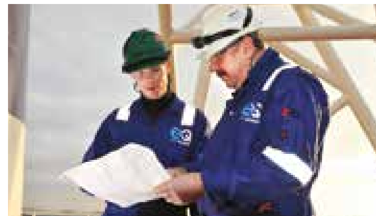
- Upgrading existing facilities
- Newer technology, new seismic
- Simplifying processes
- Infill drilling, subsurface skill in identifying well targets

ASSETS

- Heather/Broom
- Thistle/Deveron
- Greater Kittiwake Area

- Maturing fields
- Access through majors

MARGINAL FIELD SOLUTIONS



- Agile, innovative and cost efficient solutions
- Redesigning and upgrading 'used' facilities
- Using existing infrastructure; tie-backs

ASSETS

- The Don fields
- Alma/Galia

- Dormant fields
- Access through majors and licensing rounds

NEW DEVELOPMENTS

- Deploying technical and financial capacity too stretching for some previous owners
- Integrated teams commercialising and developing discoveries
- Low risk, low cost near field development and appraisal

ASSETS

- Kraken
- Didon/Zarat

- Access through smaller companies

UNIQUELY POSITIONED

FOCUSED ON INSOURCED SKILLS AND 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

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 inside front cover

GROWING ENQUEST'S ASSET BASE

EnQuest's principal UK assets at the end of 2013 were its interests in the producing operated oil fields Heather/Broom, Thistle/Deveron, West Don, Don Southwest and Conrie, the producing non-operated Alba oil field and the Alma/Galia and Kraken developments, with further development opportunities in the Scolty/Crathes, Cairngorm, Southwest Heather, Crawford/Porter and Kildrummy discoveries. During 2013, EnQuest also announced its acquisition of interests in the Greater Kittiwake Area ('GKA') producing oil field in the UK North Sea, this transaction completed in Q1 2014. In early 2014, EnQuest was awarded a licence in the Don North East area. At the end of 2013, EnQuest had working interests in 31 UK production licences, covering 39 blocks or part blocks, and was the operator of 25 of these licences; including GKA and the Don North East area licence, the totals increase to 37 licences and 47 blocks or part blocks, of which EnQuest operates 30 licences.

During 2012 and 2013, EnQuest also began establishing positions in maturing hydrocarbon basins outside the UK North Sea. At the end of 2013, EnQuest had interests in two blocks offshore Sabah, in Malaysia, this development opportunity was acquired in late 2012. In 2013, EnQuest announced its entry into North Africa, agreeing to acquire interests in the producing Didon oil field and in the Zarat Permit development opportunity, both in Tunisia, this transaction has yet to be completed. In 2013, EnQuest also agreed to acquire an interest in the North West October concession in Egypt, this transaction completed in Q4 2013. In Q1 2014, EnQuest was awarded two licences in the Norwegian Sea.

BUSINESS DEVELOPMENT TRANSACTIONS IN 2013

Our assets

8%

Acquired 8% of the Alba producing oil field

70%

Agreed to acquire a 70% operating interest in the producing Didon oil field and the Zarat Permit in Tunisia

50%

Farmed into 50% of the Avalon prospect

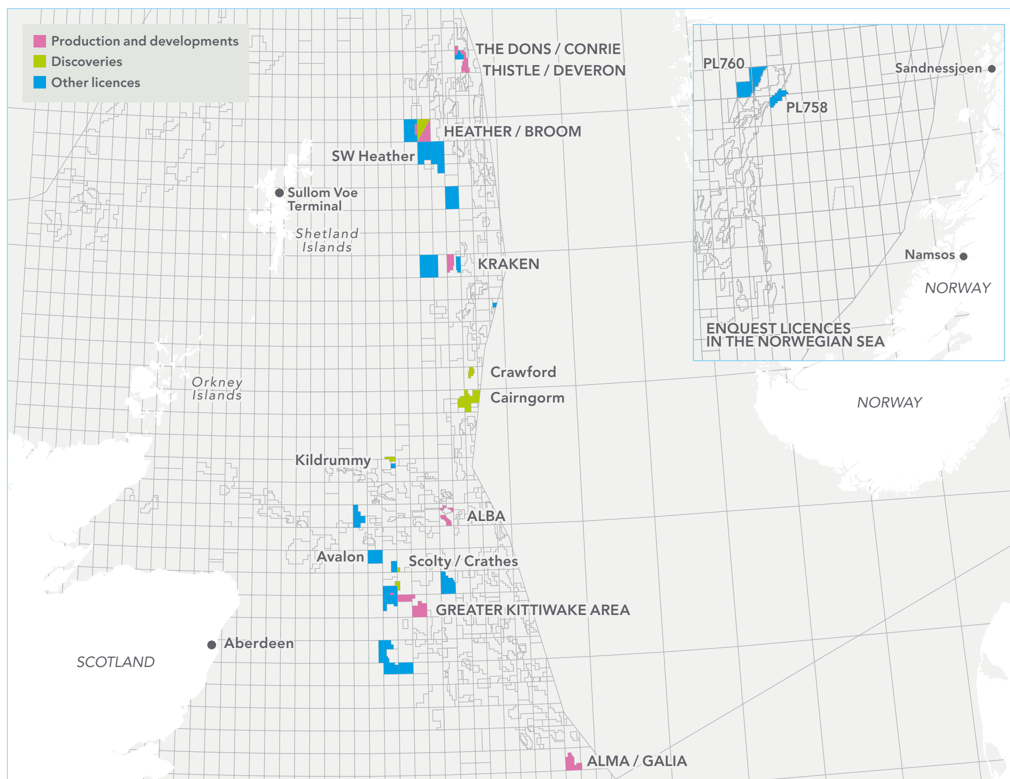
(55%)

Farmed out 55% of the Cairngorm discovery

50%

Agreed to acquire 50% of assets in the Greater Kittiwake Area

NORTH SEA



INTERNATIONAL

South East Asia / Malaysia

North Africa / Tunisia

North Africa / Egypt

KEY PERFORMANCE INDICATORS

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 VALUES

FOCUS

For me, focus is about understanding priorities, both at home and at work, and ensuring that I am giving the right level of attention to all the competing aspects of my life. For EnQuest, focus on understanding and addressing the key threats and opportunities to the business will deliver the results we need to secure our future.

Andrew Sekulin
Integrity Manager

NET 2P RESERVES
MMBOE

See pages 1, 3, 14, 16, 24 and 33

195 MMboe

REVENUE
$M

See pages 34, 35 et seq

$961m

GROSS PROFIT
$M

See pages 34, 35 et seq

$429m

EBITDA
$M

See pages 1, 16, 19 and 34

$621m

	2013	2012
Lost Time Incident Frequency ('LTIF')	**1.36**	2.00
2P reserves (MMboe)	**194.76**	128.52
Business performance data:		
Production (Boepd)	**24,222**	22,802
Revenue ($ million)	**961.2**	889.5
Realised oil price per barrel ($)	**109.7**	111.6
Opex per barrel (production and transportation costs) ($)	**35.5**	32.3
Gross profit excluding exceptional items ($ million)	**428.9**	441.3
Cash capex on property, plant and equipment oil and gas assets ($ million)	**984.3**	842.2
Reported data:		
Cash generated from operations ($ million)	**562.7**	593.9
Net (debt)/cash ($ million)	**(381.1)**	89.9
Profit before tax ($ million)	**330.9**	403.4
Basic earnings per share (cents)	**24.4**	46.2
EBITDA[1]	**621.3**	634.6

1. EBITDA has been adjusted to exclude foreign exchange losses.

UNIQUELY POSITIONED

OPERATIONS DRIVING PERFORMANCE

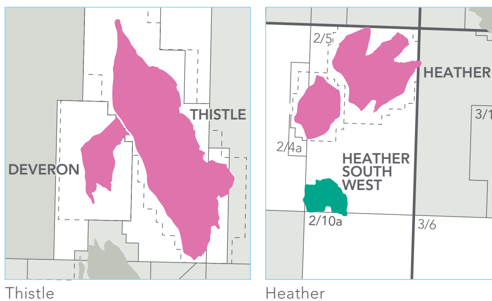
7,925

7,925 barrels per day
Thistle/Deveron produced an average of 7,925 barrels of oil per day in 2013

New life

Two projects which are prime examples of how EnQuest extends the lives of maturing oil fields through use of its brownfield modification expertise, increasing their commercial value through EnQuest's technical capability and specialist skills.

THISTLE LATE LIFE EXTENSION/ HEATHER RETURN TO DRILLING



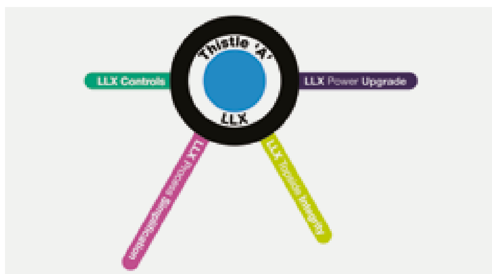
Thistle Heather

We are now seeing significant positive results from the Thistle Late Life Extension ('LLX') project. This entails a number of interlinked work streams, to date these have included the installation of a new power generation turbine to stabilise power supply issues and also topsides integrity projects.

Ultimately these projects are designed to secure the recovery of circa 35 million barrels of oil from the Thistle and Deveron fields. Following a major rig reactivation project, the investment programme yielded excellent results in 2013, with Thistle delivering its highest levels of production since the 1990s. A particular success was the new production well in the Western Fault Block, which came on stream in mid-August 2013. Work throughout the year also included process simplification, new process control and safety systems. The Thistle brownfield tax allowance, secured in 2012, proved key to ensuring the delivery of the latter stages of this field life extension programme.

Essentially the same life extension formula is being applied on Heather through its return to drilling and redevelopment programmes, designed to extend the production life of the platform as it targets some of the estimated 360 million barrels of oil still remaining in the field. The rig reactivation phase of the project was completed at the end of 2013. The investment in the platform's rig facilities paved the way for the first drilling programme on Heather since 2006, four wells are scheduled for 2014, the start of a two year infill drilling programme. A complementary facilities upgrade project has also begun with an initial focus on gas compression stability, new production and water injection flowlines and conductors reinforcement. The team is utilising its technical expertise, creativity and innovation and building on the experience gained from the Thistle project.

Rig builders with rope access skills assist the removal of the crown sheaves, 150ft up the Thistle derrick as part of the drilling maintenance programme.



LLX saw two new cranes procured and an electrical power generator commissioned in 2013. 2014 will see the refurbishment of the separation process and the installation of the associated control and safety system.

UNIQUELY POSITIONED

DEVELOPMENTS REALISING UNTAPPED POTENTIAL

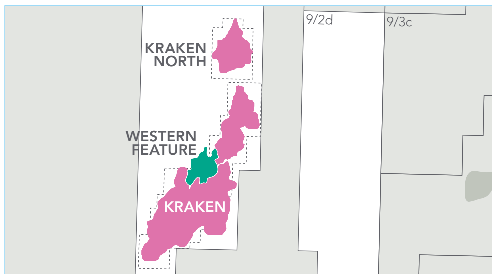
Sustainable growth

The Kraken development is a transformational one for EnQuest; one of the largest new developments in the UK North Sea for many years and a new production hub with a life span in excess of 25 years.

140m

140 million barrels of oil.
Current approximate gross reserve estimates for Kraken

KRAKEN



The pipeline end termination structures are utilised to connect the rigid flowlines to the risers at the FPSO and the manifolds at the wells.

The Kraken Field Development Plan ('FDP') was formally approved by the Department of Energy and Climate Change ('DECC') and sanctioned by EnQuest and its partners in Q4 2013, with major supplier arrangements already in place, including those for the project vessel.

The approved FDP constituted the development of the Kraken and Kraken North fields and with it the allocation of two separate heavy oil tax allowances for the development. The Kraken project exemplifies EnQuest's ability to realise the potential of previously undeveloped oil fields through the combination of our uniquely integrated technical skills set, our core values and the commercial advantages inherent in both our operational scale and our financial strength.

In 2013, the sanction of Kraken drove an increase in EnQuest's total net 2P reserves of over 60 million barrels of oil. It is expected to yield gross peak production of over 50,000 barrels per day. An oil tanker will undergo a conversion programme to become the floating, production, storage and offloading ('FPSO') vessel for the Kraken project. This vessel will be one of the largest assets of its kind operating in the North Sea, with an oil storage capacity in excess of 600,000 barrels. The field layout of the development will consist of 25 wells, tied back to the FPSO. Kraken is located in the East Shetland basin, approximately 125km east of the Shetland Islands.

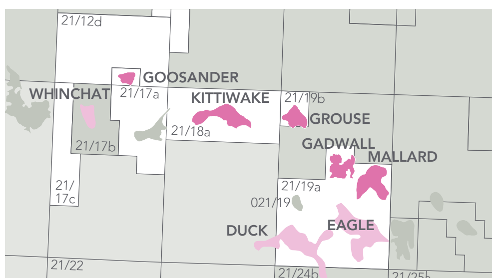
UNIQUELY POSITIONED

ACQUISITIONS IDENTIFYING FUTURE OPPORTUNITIES FOR GROWTH

4.7m

4.7 million barrels of oil, as at the economic date 1 January 2013.
EnQuest's addition to net 2P reserves from its Greater Kittiwake Area acquisition

EnQuest acquired 50% of the Greater Kittiwake Area in the UK North Sea, close to its Scolty and Crathes discoveries and its Avalon prospect; creating a new EnQuest development and production hub.



For a smaller scale map of GKA, showing it in the context of the adjacent Scolty and Crathes discoveries and the Avalon prospect, see page 6.

The Kittiwake platform

GREATER KITTIWAKE AREA

EnQuest was delighted to acquire these Greater Kittiwake Area ('GKA') assets, providing existing production, additional reserves and the opportunity for a tie-back to GKA from EnQuest's proposed development of Scolty/Crathes. If the tie-back opportunity is realised, it will enable us to extend the life of the GKA field.

The acquisition also brings infill drilling opportunities in the GKA fields and improved potential from exploration opportunities, both in the GKA area and in EnQuest's existing acreage nearby.

This acquisition fits well with EnQuest's model of managing mature fields and exploiting nearby discoveries and near field exploration opportunities.

Assets acquired:

- The entire 50% share of the Greater Kittiwake Area assets previously owned by Centrica North Sea Oil Limited.
- A 100% interest in the Kittiwake to Forties oil export pipeline.
- 2P reserves of 4.7 MMboe, as at the economic date of 1 January 2013, and additional production; net production from these GKA fields was c.2,000 Boepd at the time this acquisition was announced in October 2013.

The acquisition completed at the start of March 2014.

OVERVIEW

CHAIRMAN'S STATEMENT

EnQuest's performance

EnQuest is delivering sustainable growth. Over our first four years to the start of 2014, we have grown our original net 2P reserve base by almost 150%, representing a replacement ratio of approximately 450% and EnQuest now has a reserve life of over 20 years.

Dr James Buckee Chairman

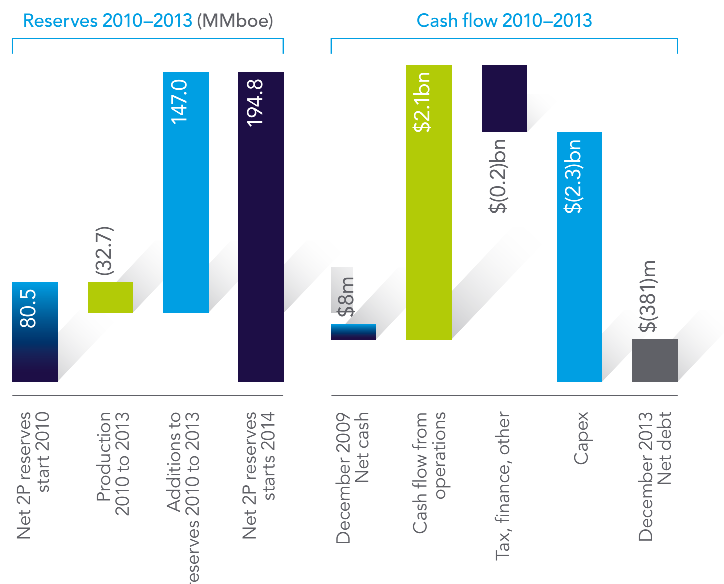
In the first four years, EnQuest generated c.$2.1 billion in cash flow from operations, and has invested c.$2.3 billion in the future growth of the business. I believe that, in risk-adjusted terms, EnQuest is positioned at the most value creating part of the exploration and production lifecycle. EnQuest's momentum is strong, the Board and I are more excited by our prospects today than at any time since EnQuest's inception.

Industry context

In 2013, oil prices remained strong and stable, for the third year in succession. This was a healthy backdrop for continuing investment and new opportunities in the energy industry. However, there have been cost increases which have directly contributed to the cancellation of some substantial development projects in the industry. This competitive environment underlines the scale of EnQuest's achievement in successfully delivering the sanction of the Kraken development.

In 2013, EnQuest put a new credit facility in place, for up to $1.7 billion. As a company of substantial size, with high levels of cash generated from operations, EnQuest has good access to capital and has a strong balance sheet, providing capacity to acquire new assets. Sellers of oil field assets need buyers who not only have the required funding, but who have the necessary technical and operational capabilities, essential for the subsequent safe and effective management of the assets. EnQuest has all of these capabilities. Generally, the flow of assets available to EnQuest for possible acquisition has increased, facilitating potential new acquisition projects, such as EnQuest's recent acquisition of the Greater Kittiwake Area ('GKA') assets.

Four years of strong cash flow generation:
450% reserve replacement ratio, reserve life over 20 years



We believe companies like EnQuest are the future of the UK North Sea. It is only by combining our skills and expertise with fiscal incentives that we can commit to significant new investments. In 2013, EnQuest benefited from aspects of the UK North Sea fiscal regime designed to encourage investment. The Thistle platform utilised a 'brownfield' allowance and the Kraken development secured two 'heavy oil' allowances. EnQuest continues to engage with the UK Government, seeking to optimise the fiscal structure of the UK North Sea.

EnQuest also engages with the Scottish Government and welcomes statements that, in the event of there being an independent Scotland, the Scottish Government plans a stable and predictable fiscal and regulatory regime. EnQuest believes that in order to maximise the extraction of hydrocarbons, there is a fundamental requirement for a stable fiscal regime that incentivises investment.

EnQuest welcomes the recommendations of the 2013/2014 Wood Review of oil and gas activity on the UK Continental Shelf and its regulation. Sir Ian Wood's strategy 'Maximising Economic Recovery for the UK', proposes more rigorous stewardship of the UK's remaining oil and gas resources through greater collaboration between operators and strong tripartite co-operation between the UK Department of Energy & Climate Change ('DECC'), HM Treasury and the oil and gas industry. EnQuest believes that in some important respects the current system is out of date and no longer 'fit for purpose'. It provides existing operators little incentive to accommodate third parties through their infrastructure and, without action, UK North Sea oil production will decline prematurely. If the Wood recommendations are implemented they should help to prolong the life of the North Sea and to maximise hydrocarbon extraction from this still rich maturing basin.

EnQuest Board

There were no changes to the composition of the Board during 2013. The Directors collaborate in assessing and evolving EnQuest's strategy and in key decisions on implementation; in 2013 these included the sanctioning of the Kraken development, the Kittiwake acquisition and EnQuest's initiatives outside the UK North Sea.

Although there were no changes to the Board itself in 2013, in October, EnQuest PLC announced the appointment of Stefan Ricketts as Company Secretary. This change followed Paul Waters stepping down as Company Secretary. Paul has been with EnQuest since its inception, the Board thanks him for his contribution and welcomes Stefan to his new role.

EnQuest's results are a reflection of the quality of all of our people and on behalf of the Board, I would like to thank my EnQuest colleagues for their continued hard work, commitment to our values, and successful pursuit of the Company's development plans.

Governance

The Company recognises the importance of having high standards in all areas of governance, this includes the area of human rights. In line with the recent expansion of our overseas activities, we are refining our approach to these areas to ensure that the Company's policies are robust for international as well as local operations. Our values will remain consistent with our existing Code of Conduct and will comply with all applicable laws.

In 2013 we further embedded and extended our anti-corruption programme, by launching a Group-wide training programme for all employees. By the end of the year the great majority of our employees had completed the training, which is being extended to all new joiners.

Dividend

The Company has not declared or paid any dividends since incorporation in 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 on such other factors as the Board of Directors of the Company considers appropriate.

Delivering sustainable growth

2013 was another good year of delivery and progress for EnQuest. We continue to demonstrate that by targeting maturing assets and undeveloped oil fields, we can create value and deliver sustainable growth. In 2014, EnQuest will continue to invest in its current producing assets, bring Alma/Galia onstream, integrate the Greater Kittiwake Area acquisition and make substantial investments in the Kraken development, which is scheduled to come onstream by 2017. We are therefore on course for having six producing operated hubs in the UK and for achieving our objective of annual net production from the UK North Sea of around 50,000 Boepd. Beyond that, we are creating further new potential from our UK asset portfolio and making low cost investments in international opportunities, securing EnQuest's growth for the longer term.

ENQUEST VALUES

EMPOWERMENT

One of the things I like most about EnQuest is that I am given clear accountability for my work and then empowered to deliver it. For me this means appropriate controls but, importantly, a lack of bureaucracy and the feeling that my efforts can really make a difference. I believe EnQuest's culture of empowerment allows people to put their hearts into their work and gives us a real competitive edge.

Jane Mellor
Performance Management Team Lead

OVERVIEW

CHIEF EXECUTIVE'S REPORT

EnQuest's strategy and business model; a good performance in 2013

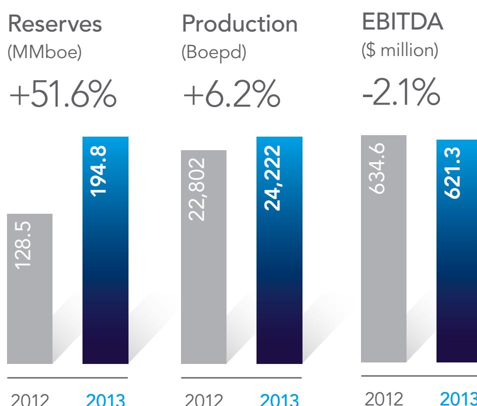
In 2013, following the sanction of the large Kraken field in November, EnQuest increased its net 2P reserve base by 51.6% to 194.8 MMboe, reflecting a reserve replacement ratio of over 850% for 2013 and strongly reinforcing the sustainability of EnQuest's growth model.

Amjad Bseisu Chief Executive

Over

850%

Reserve replacement ratio in 2013



Existing assets continue to perform well, we produced an average of 24,222 Boepd in 2013, an increase of 6%. This was around the middle of the guidance range we indicated at the start of the year, even though first production from Alma/ Galia was rescheduled into 2014.

In 2013, we produced 8.7 million barrels of oil from our existing reserves. We also added 74.9 million barrels of oil to 2P reserves; this was achieved through the sanction of the Kraken development, the extension of the planned Alma/ Galia field life, selective asset acquisitions, such as our stake in the producing Alba field, and from upward revisions to our existing fields.

In 2013, cash flow generated from operations was $562.7 million and EBITDA was $621.3 million. We invested $984.3 million of cash on capital expenditure for the future growth of the business.

In 2013, we agreed the acquisition of a 50% interest in the Greater Kittiwake Area, giving us an opportunity to extend its field life and also to enhance reserves by facilitating a proposed development of the Scolty and Crathes discoveries. This fits well with our objectives of managing maturing fields, exploiting nearby discoveries and near field exploration

opportunities. EnQuest also announced its first acquisition of an international producing asset, giving us an operating platform in Tunisia with short term infill drilling opportunities and a low cost entry point into potentially substantial development opportunities at the Zarat and Elyssa fields.

EnQuest is well positioned for sustainable growth and is successfully implementing its strategy to deliver that growth.

Operations and developments

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

EnQuest will always maintain the highest level of vigilance with regard to HSE&A, we should acknowledge some significant achievements in 2013. The transfer of duty holdership (direct management of production platforms) to EnQuest from an outsourced contractor was conducted safely and effectively; a natural evolution of our integrated approach to operations management, giving us increased direct control over our assets.

In 2013, EnQuest's 2013 lost time injury frequency rate ('LTIF') of 1.4 compared favourably with the latest available industry average of 1.9. Also encouraging was that at the end of 2013 our safety critical backlog (a measure of outstanding safety maintenance items) was almost zero.

We will not be complacent, we have put in place a new series of challenging HSE&A objectives for 2014, by way of continuous improvement planning. We continue to exhibit leadership in demonstrating safety that comes before production and operations.

Operations

In 2013, EnQuest delivered good production growth of 6%. We produced oil from the Thistle field at volumes not achieved since the mid-1990s, demonstrating EnQuest's ability to rejuvenate maturing fields and to extend their field lives. New drilling at the successful Don fields enabled them to maintain their position as EnQuest's highest volume producing hub.

EnQuest delivered nine wells in 2013, including the successful Thistle and Dons drilling programmes. Uptime performance was strong and in the top quartile of UK operators as assessed by the UK Production Efficiency Taskforce, utilising DECC data, despite the relative maturity of EnQuest's assets. The Heather/Broom hub also made a strong contribution to production, reflecting good well performance at Broom and improved operating efficiency at the Heather platform. In 2014, Heather returns to drilling for the first time in eight years, following its recommencement of rig operations at the end of 2013.

Developments

Kraken

In November 2013, EnQuest delivered the sanction of the Kraken development in the UK North Sea; the largest single oil investment sanctioned in the UK last year. EnQuest originally acquired its interests in Kraken after a series of appraisal wells had proven both the presence of oil and also that its flow characteristics were good. Prior to sanction, EnQuest had a good understanding of the reservoir, had completed a full front end engineering design ('FEED') process and had the major supplier arrangements already in place, including those for the floating, production, storage and offloading vessel ('FPSO').

EnQuest is the operator of the project. The Kraken development uses conventional technology and is anticipated to produce over 30,000 Boepd net to EnQuest at its peak rate; we expect it to come onstream by 2017, creating EnQuest's sixth operated producing hub. With its long field life in excess of 25 years, Kraken further increases the sustainability of EnQuest's growth. Comprehensive additional information on the Kraken project was published at EnQuest's capital markets day for investors in Q4 2013, these materials are available on EnQuest's website.

Alma/Galia

In late 2012, EnQuest confirmed the sanction of the Alma/Galia development, now with a gross 34 MMboe. By the end of 2013, the Alma/Galia subsea infrastructure had been put in place, drilling and completion operations were well underway and the 'EnQuest Producer' FPSO vessel had been moved to the Tyne in Newcastle, to undertake finishing yard scope and onshore commissioning.

In H2 2013, as an assessment of the remaining work concluded that additional time was needed for the project, the anticipated date of first production was rescheduled into 2014. Additional information on the Alma/Galia project was provided to investors at EnQuest's capital markets day in Q4 2013, including details in relation to health and safety, progress in the field, also revised capex and opex, with EnQuest's net capex cost for the first phase at c.$45 per bbl. EnQuest now expects production to start in H2 2014. Alma/Galia will significantly increase EnQuest's production when it comes onstream, with an initial net peak production of c.13,000 Boepd.

OVERVIEW

CHIEF EXECUTIVE'S REPORT CONTINUED

Acquisitions and disposals

UK North Sea

In January 2013, EnQuest agreed the acquisition of an 8% interest in the Alba oil field, including 5.9 MMboe of net 2P reserves, as at the economic date of 1 January 2012. Alba also brings EnQuest additional experience relevant to the development and operation of the Kraken field. The transaction completed in March 2013.

In H1 2013, EnQuest negotiated the farm out of a total of 55% of its previous 100% interest in the Cairngorm basement oil discovery. EnQuest received a promoted carry on the Cairngorm appraisal well, this transaction completed in August 2013 and an appraisal well is currently being drilled.

In August 2013, EnQuest announced it had farmed into a 50% interest in the Avalon prospect. This is located close to the Scolty and Crathes discoveries, in each of which EnQuest has a 40% interest. An EnQuest operated exploration well is to be drilled on Avalon in 2014.

In Q4 2013, EnQuest announced an agreement to acquire 50% of the Greater Kittiwake Area assets, along with a 100% interest in the Kittiwake to Forties oil export pipeline. This gives EnQuest increased production and additional net 2P reserves of 4.7 MMboe, as at the economic date of 1 January 2013. We see significant potential to improve production both through infill drilling and through exploring further prospects in the area. With Scolty, Crathes and Avalon all nearby and the possibility of a tie-back to Kittiwake, this acquisition creates the potential for a substantial new EnQuest hub and for an extension to the field life of GKA.

International

In Q4 2012, EnQuest announced its first measured steps outside of the UK North Sea, replicating its existing model by targeting previously underdeveloped assets in what will be a small number of other maturing regions. In 2012, EnQuest entered Malaysia with an initial investment of only US$3 million, to acquire Nio Petroleum (Sabah) Limited and thereby a 42.5% interest in Blocks SB307 and SB308, offshore Sabah, Malaysia. In 2014, a well is being matured for drilling offshore Sabah, Malaysia.

In January 2014, EnQuest was offered and accepted two licences in the Norwegian 2013 Awards in Pre-defined Areas ('APA') licensing round, both located in the Norwegian Sea. EnQuest was offered production licence 758 ('Rosslyng'), with EnQuest as the operator and having a 35% interest. EnQuest was also offered licence 760 ('Chinook'), with Total as the operator, both Total and EnQuest having a 50% interest each. In both cases, the work commitments in the initial two year period entail 3D seismic licensing and reprocessing.

In Q2 2013, EnQuest agreed its first acquisition of international producing assets, acquiring 70% and operatorship of the Didon oil field in Tunisia; including 2 MMboe of net 2P producing oil reserves in Didon, along with over 40 MMboe of net contingent resources in the Zarat field. With an initial consideration of US$23 million on completion, this represents another low cost entry point into a new region, with the potential for a development of the Zarat field and possibly also the nearby Elyssa field. Completion of this transaction is expected in H2 2014.

Building on this first move into North Africa, EnQuest has also made a small investment in a 50% interest in the North West October appraisal block in Egypt, with the possibility of a future development opportunity; the consideration is refundable if a development does not proceed.

Financial performance

In 2013, EnQuest generated strong EBITDA of $621.3 million. EnQuest is in a strong financial position, having recently put in place a new credit facility, for up to $1.7 billion; providing capacity both for our current projects and for new opportunities. 2013 year end net debt of $381.1 million, compares to a $89.9 million net cash position at the end of 2012 and reflects EnQuest's increased investment programme.

In total, unit operating costs of $35.5 per barrel were on target; reflecting a good operational performance and good control of direct costs, although transportation costs were up due mainly to an increase in the costs per barrel at the Sullom Voe oil terminal in the Shetland Islands. Within the total, unit production costs of $27.2 per barrel were flat compared to the $27.4 per barrel equivalent costs incurred in 2012.

2014 so far

In Q1 2014, EnQuest was offered an 'out of round' licence ('Don NE') in the Don North East area for blocks 211/18e and 211/19c, including the Area 23 and Area 24 discovered oil accumulations and an undrilled extension to the Don NE field, in the same area as Don Southwest and West Don. This is a natural fit for EnQuest, providing new production opportunities and utilising existing infrastructure in the Don fields.

The Cairngorm appraisal well has recently reached its target, with indications of hydrocarbons in a relatively good quality basement reservoir.

Outlook for the rest of 2014 and beyond

Production performance has been good in 2014 so far, despite severe winter weather conditions. Average production for the full year 2014 is anticipated to be between 25,000 Boepd and 30,000 Boepd, excluding production from uncompleted transactions. EnQuest plans to deliver over 15 wells in 2014.

The drilling programme includes a new production well on Don Southwest, a production well workover on GKA, an ongoing intervention programme on Thistle, three production wells and one injection well on Alma/Galia and the recommencement of drilling on Heather for the first time since 2006, with two sidetracks and two workovers. Also, two production wells are planned for the non-operated Alba field.

The 2014 exploration and appraisal well drilling programme includes Cairngorm, Kraken and Avalon in the UK. Internationally, in H2 2014, a non-operated well is being matured for drilling in the Sabah area, offshore Malaysia.

The drilling on Alma/Galia and the completion work on the EnQuest Producer will be followed by the anticipated start-up of production in the second half of 2014, revitalising the first field to produce oil in the UK North Sea, almost 40 years after it initially came onstream. We are now moving ahead on the Kraken development, with the FPSO vessel for Kraken due to arrive in the yard in Q2 2014, for the commencement of its conversion programme.

With production from Alma/Galia due to start this year and Kraken scheduled to produce first oil by 2017, EnQuest's already sanctioned development projects are set to deliver a material increase in production to around 50,000 Boepd.

ENQUEST VALUES

PASSION

Passion is the desire and enthusiasm to meet the day to day challenges that working at EnQuest brings. I love my job and feel I have an important role to deliver for the company; passion is fundamental to wanting to be here, work through issues, play your part and benefit from the results.

Brid O'Shea
Senior Environmental Adviser

BUSINESS REVIEW

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.

A Risk and Review Committee was established during 2013 to review significant prospective commitments and advise the Chief Executive on risks therein.

The Group risk register is reviewed by the Executive Committee every month. Similarly, at each Board meeting the Board reviews and discusses the risk register with senior management to ensure that risks are being appropriately identified and actively managed.

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.

Set out below are the principal risks and the mitigations together with an estimate of the potential impact and likelihood of occurrence after the mitigation actions and how these have changed in the past year.

RISK	MITIGATION
Health, safety and environment (HSE) Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including major accident hazards, personal health and safety, compliance with regulatory requirements and potential environmental harm. **Potential impact** – Medium (2012 Medium) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	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. In addition, the Group has a positive, transparent relationship with the UK Health and Safety Executive. In March 2013, EnQuest took on the role of duty holder for the Group's operated fields in the North Sea. This has enabled the implementation of EnQuest HSE principles and values across its sites and has improved focus on HSE improvement activities. As a result, the Group has also strengthened its operating, auditing and integrity management capability accordingly.
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 and where remediation may be dependent on suitable weather conditions offshore. Lower than expected reservoir performance may have a material impact on the Group's results. The Group's delivery infrastructure on the UKCS is dependent on the Sullom Voe Terminal. **Potential impact** – High (2012 High) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	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. 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 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.

RISK	MITIGATION
Project execution The Group's success will be dependent upon bringing new developments, such as Alma/Galia and Kraken, to production on budget and on schedule. 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. **Potential impact** – High (2012 High) **Likelihood** – Medium (2012 Low) The likelihood of occurrence of an event impacting project execution will have increased to an extent by virtue of the commencement of the capital works on Kraken. However, it should be noted that project execution risk on Alma/Galia is diminishing as the project works, particularly the FPSO, are coming to an end.	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. The Group also engages third party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. EnQuest ensures that responsibility for delivering time-critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations. The Alma/Galia development is progressing towards first production in H2 2014. In 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. The work required to implement these aims continues on the EnQuest Producer FPSO with the vessel at a finishing yard in the UK for final integration and commissioning prior to sailaway. The offshore drilling and completion campaign continues with all Alma wells now drilled through the reservoir and two of the six electrical submersible pump completions run. The piled mooring system and the majority of the subsea construction was completed in 2013 with only final mooring hook-up and riser pull-in to be completed post arrival of the FPSO. The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production is scheduled by 2017. The development involves the drilling of 25 new subsea horizontal wells which will be connected to an FPSO. Prior to sanction, EnQuest identified and optimised the development plan using EnQuest's pre-investment assurance processes. Six appraisal wells have been drilled in the area, new seismic data was completed, considerable subsurface modelling was undertaken and FEED studies (front end engineering and design) were carried out for the FPSO and subsea integrated equipment. In order to reduce project cost risk, more than 60% of the capital expenditure has been defined by actual tendering and placing of contracts. The FPSO will involve conversion of an existing tanker which will be under a leased contracting arrangement for a fixed price.
Reserve replacement Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value. **Potential impact** – High (2012 High) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	The Group puts a strong emphasis on subsurface analysis and employs industry leading professionals. The Group continues to recruit in a variety of technical positions which enables it to manage existing assets and evaluate the acquisition of new assets and licences. All analysis is subject to internal and, where appropriate, external 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.
Financial Inability to fund appraisal and development work programmes. **Potential impact** – High (2012 High) **Likelihood** – Medium (2012 Medium) There has been no material change in the potential impact or likelihood.	During the year, the Group has refinanced its revolving credit facility with a new larger facility and has 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.

BUSINESS REVIEW

RISKS AND UNCERTAINTIES CONTINUED

RISK	MITIGATION
Human resources The Group's success is dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. **Potential impact** – Medium (2012 Medium) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	The Group has established a competent employee base to execute its principal activities. In addition to this, the Group regularly monitors the employment market to provide remuneration packages, bonus plans and long term share-based incentive plans that incentivise performance and longer-term commitment to the Group. EnQuest is undertaking a number of human resource initiatives to enable the Group to meet its growth aspirations. These initiatives are part of the overall People and Organisation strategy and have specific themes relating to Organisation, People, Performance and Culture. It is a Board-level priority that the Executive and senior management have the right mix of skills and experience. There continues to be a significant level of resourcing activity and recruitment, selection strategies and processes have been enhanced to ensure that our workforce is competent. EnQuest's experienced HR department will continue to ensure that key capabilities are in place as the Group grows both in the UKCS and internationally. The Group also maintains market-competitive contracts with key suppliers to support the execution of work where the necessary skills do not exist within the Group's employee base. The focus on executive and senior management retention, succession planning and development remains an important priority for the Board and an increasing emphasis will be placed on this as the Group grows.
Reputation The reputational and commercial exposures to a major offshore incident are significant. **Potential impact** – High (2012 High) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	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. **Potential impact** – High (2012 High) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of up to 75% 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. The Group is establishing an in-house trading and marketing function to enable it to enhance its ability to mitigate the exposure to volatility in oil prices.
Political and fiscal Changes in the regulatory or fiscal environment affecting the Group's ability to deliver its strategy. **Potential impact** – High (2012 Medium) **Likelihood** – Medium (2012 Low) The increase in likelihood and impact reflects the possibility of a change in the regulatory and fiscal regimes following the referendum on Scottish independence in 2014.	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. In respect of the referendum on Scottish independence, senior management liaises with Scottish politicians and others to ensure that third parties are aware of EnQuest's trading and investment activities and the importance of the oil industry in general to the local and national economies.

RISK	MITIGATION
Joint venture partners Failure by joint venture parties to fund their obligations. Dependence on other parties where the Group is not the operator. **Potential impact** – Medium (2012 Medium) **Likelihood** – Medium (2012 Medium) There has been no material change in the potential impact or likelihood.	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. 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. **Potential impact** – Medium (2012 Medium) **Likelihood** – Low (2012 Low) There has been no material change in the potential impact or likelihood.	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 referred to above are in place to ensure it can attract and retain key personnel.
Acquisitions The Group has been active in acquiring new assets. These have been producing, development and exploration assets most of which have been operated assets, although Alba is not operated by EnQuest. The businesses of all of these assets are similar to the Group's existing activities, but there are additional risks associated with acquisitions such as the difficulty in valuing assets, assumptions on oil price, funding, resourcing new activities and integration within existing operations. **Potential impact** – Medium (2012 Low) **Likelihood** – Low (2012 Low) The potential impact is higher due to acquisitions completed and pending, including Tunisia.	For all acquisitions, the Group performs extensive due diligence prior to announcing and subsequently completing the acquisition using suitably qualified in-house staff or third party specialists. In all cases, the Group seeks to mitigate risk in sale and purchase agreements by including suitable representations and warranties in the event of issues arising post completion. When evaluating acquisitions, a risk register is prepared and a risk review committee reviews commercial, technical and other business risks together with mitigation and how risks can be managed by the business on an ongoing basis. EnQuest looks to minimise valuation risk on larger transactions by structuring purchase consideration to include a deferred consideration element contingent upon a future event such as the sanctioning of a future development. In the case of oil prices, the Group evaluates the value of potential targets at a range of oil prices to ensure that project economics are sufficiently robust. Once a potential acquisition reaches an advanced stage, the Group develops a takeover plan to determine how the target business can be integrated into the Group. For operated assets, this will involve identifying key personnel to take on critical positions within the target and a plan to embed EnQuest policies and procedures into the newly acquired activity. Initial funding and funding of subsequent investments are modelled within the Group's internal planning models to ensure satisfactory funds can be made available without adverse effects on the existing funding requirements of the Group or its cost of capital.
International business Whilst the majority of the Group's activities and assets are in the UK, the international business is becoming more material. The Group's international business is subject to the same risks as the UK business (e.g. HSE, production and project execution); however, there are additional risks that the Group faces including security of staff and assets, political, foreign exchange and currency control, taxation, legal and regulatory, cultural and language barriers and corruption. **Potential impact** – Medium (2012 Low) **Likelihood** – Low (2012 Low) The potential impact is higher as the international business is growing.	Prior to entering into a new country, EnQuest evaluates the host country to assess whether there is an adequate and established legal and political framework in place to protect and safeguard first its expatriate and local staff and, second, any investment within the country in question. When evaluating international business risks, a risk register is prepared and a risk review committee reviews commercial, technical and other business risks together with mitigation and how risks can be managed by the business on an ongoing basis. EnQuest looks to employ suitably qualified host country staff and work with good quality local advisers to ensure it complies within national legislation, business practices and cultural norms whilst at all times ensuring that staff, contractors and advisers comply with EnQuest's business principles, including those on fraud and corruption. Where appropriate, the risks may be mitigated by entering a joint venture with partners with local knowledge and experience. After country entry, EnQuest maintains a dialogue with local and regional government, particularly with those responsible for oil, energy and fiscal matters, and may obtain support from appropriate risk consultancies. When there is a significant change in the risk to people or assets within a country, the Group takes appropriate action to safeguard people and assets.

OPERATING REVIEW

OUR PERFORMANCE

"High production performance was underpinned by operational uptimes, high production efficiency and strong reservoir performance"

Nigel Hares Co-founder and Strategic Adviser (right)

David Heslop Managing Director, UKCS (left)

2013: High operational uptimes and high production efficiency

In 2013, EnQuest delivered nine wells with well workovers and new production and water injection wells, growing production by 6.2% to 24,222 Boepd (2012: 22,802 Boepd); a performance underpinned by high operational uptimes, high production efficiency and strong reservoir performance. This was achieved whilst ensuring that safe results, no harm to people and respect for the environment remained our top priorities.

In EnQuest's first four years, revisions to reserve estimates have increased our net 2P reserves by 25.4 MMboe, reflecting the benefits of our infill drilling programme and our increased reservoir knowledge. These upgrades to reserve estimates are a direct result of EnQuest's operational work programmes and an important source of value creation; in the four years since our inception, 9.6 MMboe has been produced by Thistle and we have increased Thistle's net 2P reserves by almost twice that level, by 19.0 MMboe.

In 2013, a series of operational performance efficiency measures were started under an 'Operations Excellence' programme, leveraging the potential of EnQuest's in-house focused organisational structure. These included a focus on maximising production through loss management programmes and improved standardised reporting methods. New controls were also put in place to maximise our ability to avoid major accident hazards; a new major accident prevention model was developed, a new asset integrity review board was established, along with a new incident

review system. Waste minimisation initiatives were also launched to maximise cost efficiencies, these included a project to improve the efficiency of the way in which supplier contracts are managed.

An integral part of EnQuest is its values; collaboration, empowerment, agility, creativity, passion, respect and focus. This common set of values unifies the EnQuest organisation. The importance of 'empowerment' was underlined in 2013; more key jobs were brought in-house and became direct EnQuest staff positions, forums were established for information sharing and exchange of ideas and learning. All of which helped to drive production efficiency at our three operated producing hubs.

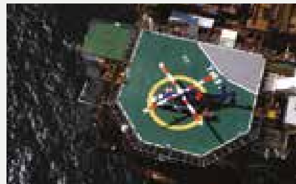
Close collaboration amongst the workforce was required for the successful transfer of duty holdership that took place in March 2013. Duty holdership is a core competency for EnQuest. The increased control secured by taking over as duty holder is helping to improve operational, production and cost efficiency.

EnQuest's capability is continuing to grow across all its functions, we are again pleased to have been able to increase quality, strength and depth across the organisation.

ENQUEST'S HUBS

Thistle/Deveron

The Thistle field is located 125 miles north east of the Shetland Isles and 275 miles north east of Aberdeen, in block 211/18a. The Deveron field lies 3km to the west of the Thistle field, in the Northern North Sea.

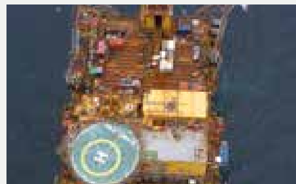


The Don fields

The West Don and the Don Southwest fields are located approximately 7km apart in the Northern North Sea approximately 150km north east of the Shetlands. West Don is 17km north west of the Thistle field, in the Northern North Sea.

Heather/Broom

The Heather field is located approximately 145km north east of the Shetland Islands in block 2/5. The Broom field is located approximately 7km to the west of the Heather platform, in the Northern North Sea.



Alma/Galia

The Alma/Galia fields are located in blocks 30/24c and 30/25c respectively, 310km southeast of Aberdeen. The Alma/Galia fields will be produced via the EnQuest Producer FPSO. Alma/Galia is located in the Central North Sea.

Kraken

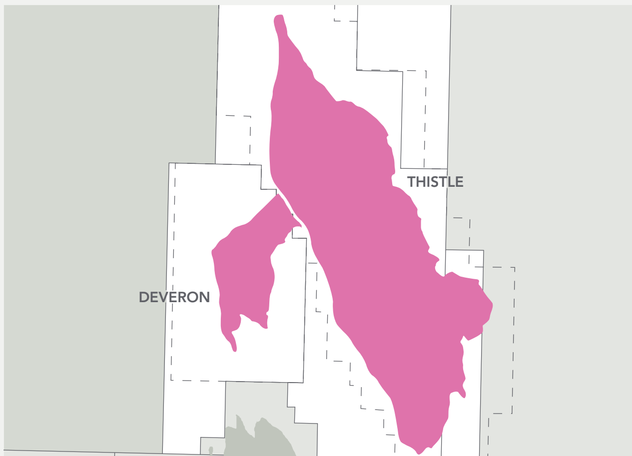
The Kraken field is located in the East Shetland basin, to the west of the North Viking Graben; approximately 125km east of the Shetland Islands. The Kraken field is located within block 9/2b in the Northern North Sea.

Greater Kittiwake Area ('GKA')

The GKA comprises of five fields, namely Kittiwake, Mallard, Gadwall, Goosander and Grouse, which are produced via the Kittiwake platform. The GKA is located in blocks 21/12a, 21/12d, 21/17a, 21/17c, 21/18a and 21/19, 160km North East of Aberdeen, in the Central North Sea.

OPERATING REVIEW

THISTLE/DEVERON



Working interest at end 2013:
- 99%

Decommissioning liabilities:
- Remain with former owner

Fixed steel platform

Daily average net production:
- 2013: 7,925 Boepd
- 2012: 8,058 Boepd

$109m

Cash invested in 2013

2013

Production at Thistle/Deveron achieved a net 7,925 Boepd in 2013, with a particularly strong performance in the second half of the year, with peak spot rates over 16,000 Boepd and having finished 2013 at a daily average above 10,000 Boepd.

Q1 2013 was negatively impacted by shutdowns of the third party Brent pipeline. Q1 2013 production was also affected by higher than normal levels of water injection downtime; this was in turn due to power source reliability issues, caused by outages of the B turbine whilst the new D turbine was being commissioned.

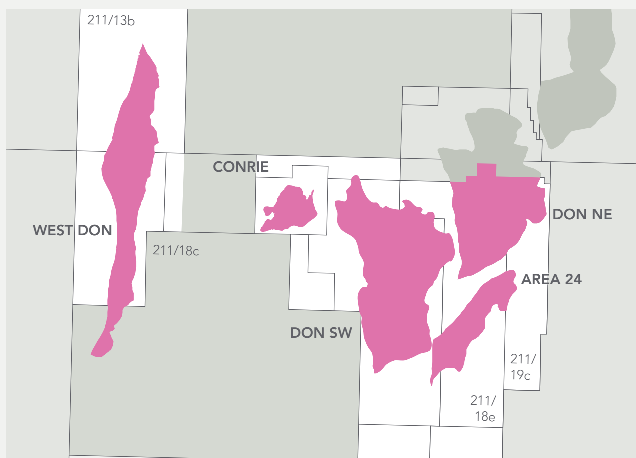
In H2 2013, production benefited from strong performance from a new production well which came onstream at the start of August. Thistle's new D turbine and fully rebuilt B turbine are now providing better performance levels, resulting in improved power supply stability. Despite a two week scheduled platform shutdown for maintenance in October 2013, production in the second half of 2013 was almost double the levels in the first half.

2014

In 2014, capital investment is continuing in the Thistle life extension project, ongoing activities include a control systems upgrade and significant simplification of processes, jacket integrity improvements and topsides structural integrity improvements.

Looking further ahead, there are presently 18 producing wells and seven water injection wells in Thistle/Deveron; these will be increased in number during 2016/17.

THE DON FIELDS



Working interest at end 2013:

- Don Southwest, 60%
- Conrie, 60%
- West Don, 63.45%
- Don North East, 60%: Q1 2014 'out of round' licence

Decommissioning liabilities:

- As per working liabilities

Floating production unit with subsea wells

Daily average net production:

- 2013: 11,014 Boepd
- 2012: 10,992 Boepd

$69m

Cash invested in 2013

2013

Production at the Don fields achieved a net 11,014 Boepd in 2013, ahead of the 10,992 Boepd in 2012.

In Q1 2013, the Don fields were also negatively affected by the third party Brent pipeline shutdowns, however production benefitted from the West Don W6/W4 producer/injector pair, following the tie in of the W6 injector well in Q1 2013. The Don Southwest Area 6 producer, S12z, was completed and brought onstream in June 2013, followed by Area 6 injector, S13, in August. Operational performance highlights in H2 2013 included a record water injection rate of 58,000 bwpd.

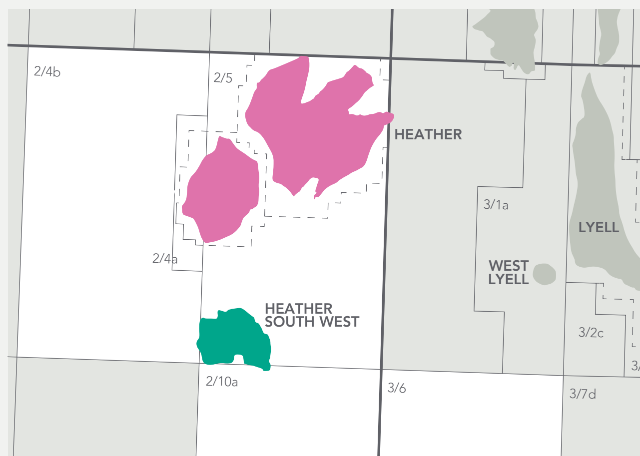
2014

Production optimising projects are still continuing on the Don fields, despite the fact that the drilling programme on EnQuest's existing Don fields is coming to an end and production is therefore in natural decline. This natural decline will reduce 2014 production over 2013, although a new production well is planned to be drilled in H1 2014 in Don Southwest Area 22 (TJ). A maintenance shutdown is planned Q3 2014.

Additionally, in Q1 2014, EnQuest accepted an 'out of round' licence ('Don NE') in the Don North East area for blocks 211/18e and 211/19c, including Area 23 and Area 24 and an undrilled extension to the Don NE field. Within the first 12 months of the licence, it is intended to submit a field development plan ('FDP') in relation to Area 24, to include at least one production well. This will provide further opportunities to enhance Dons area production.

OPERATING REVIEW

HEATHER/BROOM



$57m

Cash invested in 2013

Working interest at end 2013:
- Heather, 100%
- Broom, 63%

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

Fixed steel platform

Daily average net production:
- 2013: 4,339 Boepd
- 2012: 3,752 Boepd

2013

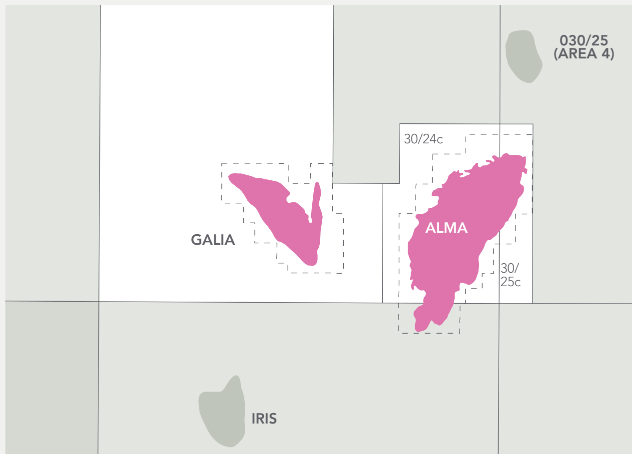
Production at Heather/Broom achieved a net 4,339 Boepd in 2013, up 15.6% on 2012. Heather has continued to deliver strong year on year production growth, reflecting good well performance at Broom and improved operating efficiency at Heather. An improvement in Heather operating uptimes was achieved partly as a result of extensive work on the gas lift compression system. The Heather rig reactivation project was successfully completed in Q4 2013, with operations starting in early 2014.

2014

Following the completion of the rig reactivation project, rig operations in Q1 2014 commenced with a workover of the H56 well, due onstream in H1 2014, to be followed by the sidetrack of H44 as a new injection well in the B2 block. The 2014 programme also includes a sidetrack of H48 and a workover of the crestal E-Block producer H47.

The Heather life extension project includes a three year infill drilling campaign, to be split into two phases, whilst sharing the rig crew with Thistle, also a complementary facilities upgrade. There are nine wells in the initial programme, targeting 12 MMboe of reserves which are included in net 2P reserves.

ALMA/GALIA



Working interest at end 2013:
- 65% in both fields

Decommissioning liabilities:
- 65% in both fields

Floating, production, storage and offloading unit with subsea wells

First oil expected in H2 2014
- Net peak production to be in excess of 13,000 Boepd

$461m

Cash invested in 2013

2013

In February 2013 EnQuest announced that it had approved 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 second phase. The extension of the field life increased gross 2P reserves to 34 MMboe.

During 2013, the scope of the work on the FPSO expanded, including additional work on the existing marine and process systems. The FPSO was moved to the Tyne for finishing and commissioning work.

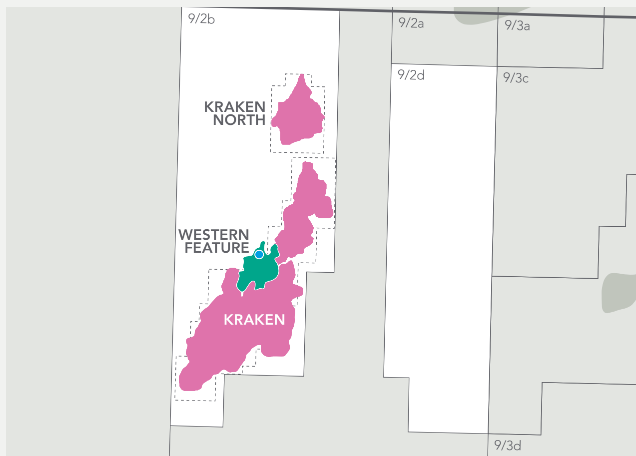
By the end of 2013, subsea infrastructure was in place including subsea trees, manifolds, pipelines and umbilicals. Risers and mooring systems were pre-installed, awaiting arrival of the FPSO. Two wells were completed in 2013, with the first electrical submersible pump ('ESP') successfully installed on Alma on well K2, followed by the installation of the second ESP, in well K3.

2014

Drilling and completion operations continue, with production anticipated in H2 2014.

OPERATING REVIEW

KRAKEN

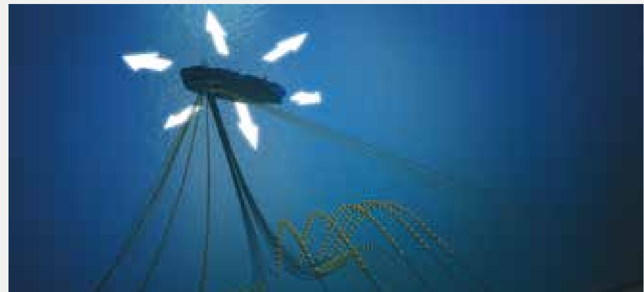


Working interest at end 2013:
- 60%

Decommissioning liabilities:
- 60%

Floating, production, storage and offloading unit with subsea wells

First oil expected by 2017
- Net peak production to be in excess of 30,000 Boepd



$172m

Cash invested in 2013

2013

The Kraken Field Development Plan ('FDP') was approved by the Department of Energy and Climate Change ('DECC') in H2 2013. First production is anticipated by 2017, with gross peak production of over 50,000 Boepd. The field layout of the development will consist of 25 wells, tied back to an FPSO. Following the project's sanction, EnQuest has added over 60 MMboe to its net 2P reserves.

Net capital cost to first oil is expected to be approximately $1.4 billion with a gross capital cost to first oil approximately $1.8 billion. EnQuest's net capital costs equate to c.$27 per bbl, including the carry. Gross capital costs of the project are estimated to be approximately $3.2 billion. At the time of project sanction, the major supplier arrangements were already in place, including those for the FPSO vessel.

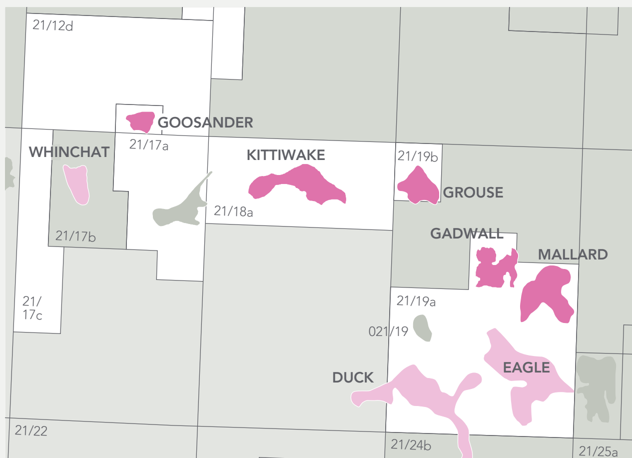
2014

In Q2 2014, the vessel will arrive at the shipyard in Singapore for the conversion scope to commence. Further appraisal drilling shall be undertaken to the west of the Kraken field in H2 2014 to assess the area known as the 'Western Feature'.

In H2 2014, EnQuest expects to commence installation of the subsea structures at the first drill centre, where the initial wells for the development will be drilled. Delivery of the hydraulic submersible pumps ('HSP') used to provide the artificial lift will commence in Q3 2014. Detailed engineering, procurement and manufacture for all equipment relating to wells, subsea infrastructure and the FPSO will continue throughout 2014.

GKA (GREATER KITTIWAKE AREA)

ALBA (NON-OPERATED)



For map of GKA in context of adjacent fields, Scolty, Crathes and Avalon prospect please see page 6.

GREATER KITTIWAKE AREA ('GKA')

Acquisition completed

- In Q1 2014

Working interest 50% in each of:

- Kittiwake, Grouse, Mallard, Gadwall, Goosander

Decommissioning liabilities:

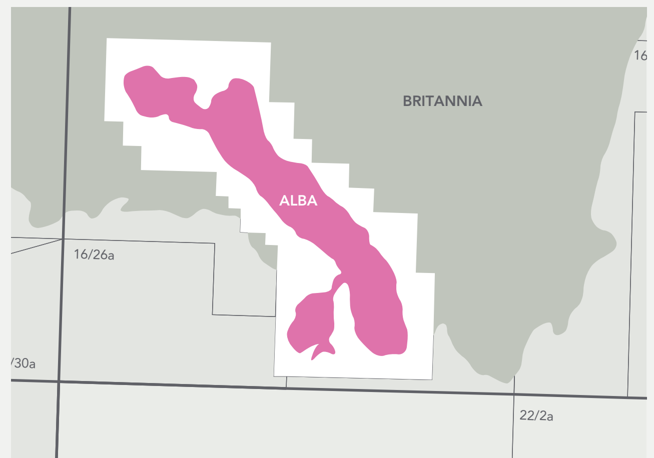
- Kittiwake 25%
- Mallard 30.5%
- Grouse, Gadwall and Goosander 50%

Fixed steel platform

100% interest in export pipeline from GKA to Forties Unity platform

Post acquisition programme in 2014

EnQuest has taken over as the operator. The initial focus will be on integrating GKA into EnQuest and on an early workover programme planned in 2014. Next steps will include progressing the proposed field development plan submission for the nearby Scolty/Crathes discoveries, with the potential for a tie-back to GKA and exploration of nearby prospects.



ALBA

Acquisition completed

- EnQuest's acquisition of its interest in Alba completed at the end of March 2013

Working interest at end 2013:

- 8%

Decommissioning liabilities:

- 8%

Fixed steel platform

Daily average net production:

- 2013: 922[1] Boepd
- 2012: –

The Alba oil field is operated by Chevron.

In 2013, two wells were drilled and completed. In 2014, planned operations include the drilling of two production wells, also the acquisition of new 4D seismic survey, a key input for maturing future drilling targets.

1. Net production since the completion of the acquisition at the end of March 2013, averaged over the nine months to the end of December.

OPERATING REVIEW

OTHER ASSET OPPORTUNITIES

Cairngorm

Assessment of the results of the Cairngorm appraisal well is underway; preliminary analysis indicates a 173ft hydrocarbon column was encountered, with evidence of good reservoir properties in the fractured granite. With the results of the previous well and seismic, the overall indications in the structure are now of a total hydrocarbon column of 797ft. Further evaluation is ongoing.

Avalon

Following EnQuest's 2013 farm in to a 50% interest in Avalon, close to Scolty/Crathes, an appraisal well will be drilled in 2014. EnQuest is the operator of this well.

ENQUEST VALUES

AGILITY

A growing international organisation requires innovative solutions to the resourcing and execution of projects. Having the ability to integrate multi-disciplinary teams from right across the organisation, allows a still small international organisation to have access to all the skills and capabilities of a major international operator, without needing a large in-country organisation.

John Penrose
General Manager, Malaysia

OUR HYDROCARBON ASSETS

EnQuest asset base as at 31 December 2013
Including Greater Kittiwake Area assets, the acquisition of which completed in Q1 2014, also two Norwegian licences awarded in Q1 2014.

	Licence	Blocks	Respective EnQuest Working Interest (%)	Name
Production & Development	P902	2/4a	63	Broom
	P242	2/5	63 & 100	Broom & Heather
	P213[1]	16/26	8	Alba
	P1765	30/24c & 25c	65	Alma
	P1825	30/24b	65	Galia
	P1200	211/13b	63	West Don
	P236	211/18a	63	West Don
	P236		60 & 60	Don SW & Conrie
	P236		99 & 99	Thistle & Deveron
	P475	211/19a	99	Thistle
	P1077	9/2b	60	Kraken
	P351[2]	21/18a	50	Kittiwake
	P073[2]	21/12a	50	Goosander
	P238[2]	21/19	50	Gadwall/Mallard/ Grouse
Discoveries	P242	2/5	55	SW Heather
	P209	9/28a	51	Crawford
	P585, P250 & P220	15/12b, 17a & 17n	60	Kildrummy
	P1214 & P1892	16/2b & 3d	45	Cairngorm
	P1107	21/8a	40	Scolty
	P1617	21/12c & 13a	40	Crathes
	P2137	211/18e & 211/19c	60	Don NE
Other Licences	P1415[2]	21/17a & 17c	50	
	P1786[2]	21/12d	50	
	P1463	14/30a	20	
	P1753	3/17	33	
	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	40	
	P1996	21/26a, 21/27c, 28/2b & 28/3b	100	
	P2000	15/17c	100	
	P2005	22/11b	50	
	P2006	21/6b	50	
	P2027	21/17b	100	
	P090	9/15a	33	
	P2084	21/7a	50	
Norwegian Sea	PL.758[3]	6508/1 & 6608/10,11	35	Røsslyng
	PL.760[3]	6607/11 & 12	50	Chinook
International Licences				
Malaysia		SB307 & SB308	42.5	SB307 & SB308
Tunisia[4]		Zarat Permit	70	Zarat & Elyssa
		Didon Concession	70	Didon
Egypt		North West October Block	50	North West October Block

Notes
1. Non-operated
2. The acquisition of the Greater Kittiwake Area assets was announced in Q4 2013 and completed in Q1 2014
3. These licences were awarded to EnQuest in January 2014 as part of the Norwegian 2013 Awards in Pre-defined Areas ('APA') licensing round
4. The acquisition of these assets was announced in 2013 but had not completed as at 31 December 2013

EnQuest Oil & Gas Reserves and Resources at 31 December 2013

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1,2,3 and 6)					
At 1 January 2013		128.52			128.52
Revisions of previous estimates		2.43			2.43
Discoveries, extensions and additions (note 7)		67.04			67.04
Acquisitions and disposals (note 8)		5.46			5.46
Production:					
Export meter	(8.83)				
Volume adjustments (note 5)	0.14				
Production during period:		(8.69)			(8.69)
Proven and Probable Reserves at 31 December 2013		**194.76**			**194.76**
Contingent Resources (notes 1,2 and 4)					
At 1 January 2013		157.75		4.40	162.15
Revisions of previous estimates		0.48			0.48
Discoveries, extensions and additions		31.44			31.44
Acquisitions (note 8)		0.37			0.37
Disposals		(2.09)			(2.09)
Promoted to reserves (note 7)		(70.95)			(70.95)
Contingent Resources at 31 December 2013		**117.00**		**4.40**	**121.40**

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 are based on the report 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 and consquent equity increase. Kraken project sanction was achieved in November 2013. Contingent Resources allocated to Alma/Galia have been classified as reserves as a result of development drilling and ongoing subsurface evaluation.
8. 8% equity was acquired in Alba on 22/2/2013.
9. The above proven and probable reserves include 7 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs.

OVERVIEW

FINANCIAL REVIEW

"The Group's financial performance in 2013 reflects solid operational performance set against a backdrop of significant capital investment in growth projects throughout the year."

Jonathan Swinney Chief Financial Officer

Financial overview

In the year ended 31 December 2013, the Brent crude oil price averaged $108.7 per barrel compared to $111.7 per barrel for 2012. Total production volumes were 6% higher for the year ended 31 December 2013 which resulted in revenue of $961.2 million compared with $889.5 million in 2012.

	Business performance	
	2013 $ million	2012 $ million
Profit from operations before tax and finance income/(costs)	**374.8**	405.1
Depletion and depreciation	**224.0**	208.0
Intangible impairments and write-offs	**2.0**	13.1
Net foreign exchange losses	**20.5**	8.4
EBITDA	**621.3**	634.6

EBITDA for the year ended 31 December 2013 was $621.3 million compared with $634.6 million in 2012. The lower EBITDA is mainly due to higher tariff and transportation costs and G&A costs offset by higher revenues. EBITDA has been adjusted to exclude foreign exchange losses. The increase in foreign exchange losses is principally due to exchange rate fluctuations of which $10.9 million relates to the retail bond.

The Group entered 2013 with $89.9 million of net cash. In October 2013, the Group established a fully underwritten new multi-currency revolving credit facility of up to $1.2 billion plus a $500 million accordion feature. At the year end, $1.2 billion had been committed with the additional $500 million being available depending on oil reserves, including increases resulting from acquisitions. The new facility replaces the $900 million facility entered into in March 2012. In Q1 2013, EnQuest successfully raised £145 million from the issue of a retail bond with a 5.5% coupon and maturity in 2022. EnQuest raised a further £10 million in Q4. These funds together with strong ongoing operating cash flows from the existing portfolio of assets have been used to fund the capital investment programme. The closing net debt position was $381.1 million at 31 December 2013 and was comprised of the following:

	Net debt/(cash)	
	2013 $ million	2012 $ million
Bond[1]	**254.5**	–
Multi-currency revolving credit facility[1]	**199.4**	34.6
Cash and cash equivalents	**(72.8)**	(124.5)
	381.1	(89.9)

1. Stated excluding accrued interest and net of unamortised fees

Through these facilities, EnQuest has diversified its funding base and has provided capacity for current projects and for new opportunities. EnQuest continues to review opportunities for further diversification of its funding base.

$563m

Cash generated from operations in 2013

Income statement

Production and revenue

Production levels, on a working interest basis, for the year ended 31 December 2013 averaged 24,222 Boepd compared with 22,802 Boepd in 2012. The increase is mainly due to additional production from Heather and Broom as well as the Alba field (acquired late March 2013), offset by marginally lower production from Thistle.

Heather and Broom production was significantly higher than 2012 due to high levels of production efficiency and the absence of a planned shutdown in 2013. Thistle production was lower due to lack of water injection in Q1 and equipment outages (pump and separator) in the first half of the year, offset by a strong performance in the second half of the year from the new A60 well and additional perforations on the A57 well. Production volume in the Don fields was higher than 2012 as a result of additional wells drilled in late 2012 and 2013. The increase was offset by lower production due to a higher than anticipated level of water injection outages compared with 2012. There was also a natural well decline from existing well stock.

The Group's blended average realised price per barrel of oil sold was $109.7 for the year ended 31 December 2013, slightly below the $111.6 per barrel received for 2012. This is consistent with average oil prices for 2012 and 2013. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2013 crude oil sales totalled $953.8 million compared with $879.3 million in 2012. The increase in revenue is due to higher production and an over-lift of $2.6 million compared with an under-lift of $24.4 million in 2012.

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 2013 $ million	Reported year ended 31 December 2012 $ million
Cost of sales	**532.3**	448.2
	$	$
Unit operating cost, adjusted for over/ under-lift and inventory movements (per barrel):		
– Production costs	**27.2**	27.4
– Transportation costs	**8.3**	4.9
– Operating costs	**35.5**	32.3
– Depletion of oil and gas properties	**24.6**	24.7
	60.1	57.0

Cost of sales pre-exceptionals and depletion of fair value adjustments was $532.3 million for the year ended 31 December 2013 compared with $448.2 million in 2012. The increase of $84.1 million is due to a change in lifting position from an under-lift in 2012 to an over-lift in 2013 which amounts to $27.0 million. There also has been a significant increase in transportation costs partly due to increased volumes, but mainly due to an increase in costs per barrel at the Sullom Voe Terminal and, to a lesser extent, the Brent pipeline. The purchase of the 8% interest in Alba in Q1 2013 also contributed to the increase in cost of sales.

The Group's operating costs comprise production costs and tariff and transportation costs which were $313.9 million for the year ended 31 December 2013 compared with $269.5 million in 2012. Transportation costs increased from $40.8 million to $73.5 million for the year ended 31 December 2013 mainly due to significantly higher unit costs per barrel at the Sullom Voe Terminal. Production costs increased by $11.7 million to $240.4 million for the year ended 31 December 2013. The main increase was due to the Alba asset acquired in Q1 2013. In the other producing assets, higher costs in Thistle due to additional power generation, diesel and well intervention costs were offset by lower costs in the Dons and Heather hubs which in 2012 included the costs of planned shutdowns.

The increase in the Group's average unit production and transportation cost of $3.2 per barrel for the year ended 31 December 2013 compared with 2012 is almost entirely due to the increase in transportation tariff rate for access to the Sullom Voe Terminal and Brent pipelines.

The Group's depletion expense per barrel for the year is broadly consistent with the previous year with a decrease of $0.1 per barrel. The minor decrease is primarily due to the lower DD&A rate for the Heather and Broom hub due to its impairment in 2012 and a lower rate for the new Alba field offset by a higher rate in the Dons hub due to higher planned capex.

The Group's change in lifting position was $2.6 million expense for the year ended 31 December 2013, compared with income of $24.4 million in 2012. The net over-lift during 2013 has arisen mainly due to a December lifting at Alba which offset an under-lift in the operated assets.

Exploration and evaluation expenses

Exploration and evaluation expenses were $8.6 million in the year ended 31 December 2013, compared with $23.2 million reported in the previous year. The expenses in 2013 primarily relate to the costs of Norway, including overheads and expenses relating to obtaining new licenses which were awarded in January 2014, and the UK 28th Licensing Round to take place in April 2014. Costs were significantly higher in 2012 due to the cost of an unsuccessful exploration well and a number of licence relinquishments.

OVERVIEW

FINANCIAL REVIEW CONTINUED

General and administrative expenses

General and administrative expenses were $25.0 million in the year ended 31 December 2013 compared with $6.7 million reported in the previous year. The main reasons for the increase are due to increased business development spend and a higher G&A recovery from partners in 2012.

Other expenses

Other expenses is comprised of net foreign exchange losses of $20.5 million in the year ended 31 December 2013.

Taxation

The tax charge for the year of $146.6 million, excluding exceptional items, represents an effective tax rate of 43% compared with 33% in the previous year. The increase in the Group's effective tax rate for the year is due primarily to a reduction in the level of tax benefits available from leasing arrangements, partly offset by an increase in the ring fence expenditure supplement.

Exceptional items and depletion of fair value uplift

Exceptional losses totalling $8.8 million before tax have been disclosed separately in the year ended 31 December 2013 mainly relating to additional depletion costs resulting 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 $46.6 million include $13.3 million of bond and loan interest payable, $12.6 million unwinding of discount on decommissioning provisions, a non-cash unrealised loss of $7.7 million mainly on the mark-to-market valuation of the Group's 2014 oil hedges which are deemed ineffective for hedge accounting purposes. Other financial expenses of $14.2 million are primarily commitment and letter of credit fees as well as arrangement fee amortisation relating to the bank facilities. The Group capitalised $1.2 million for the year ended 31 December 2013 in relation to the interest payable on borrowing costs on its capital development projects.

Finance income

Finance income of $11.5 million includes $0.4 million of bank interest receivable, a non-cash unrealised gain of $9.5 million primarily on the mark-to-market of the Group's foreign exchange hedges which are deemed ineffective for hedge accounting purposes and $1.4 million unwinding of discount on the financial asset created in 2012 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 24.4 cents for the year ended 31 December 2013 compared with 46.2 cents in 2012. The decrease of 21.8 cents is attributable to lower profit before tax and a higher effective income tax rate in the current year compared with 2012. The Group's reported basic earnings per share excluding exceptional items were 24.8 cents for the year ended 31 December 2013 compared with 33.1 cents in 2012. The decrease of 8.3 cents is mainly attributable to the higher effective income tax rate in the year ended 31 December 2013 compared with the prior year.

Cash flow and liquidity

The Group's reported cash generated from operations in 2013 was $562.7 million compared with $593.9 million in 2012. The reported cash flow from operations per issued Ordinary share was 72.3 cents per share compared with 75.7 cents per share in 2012. The reduction in cash generated is mainly due to the purchase of xmas tree stock not allocated to a specific field. Movements in trade receivables and payables are in line with normal business.

During the year ended 31 December 2013, $1.2 million was received in relation to an exploration refund for EnQuest Norge AS's activities in Norway. In addition, $11.3 million was paid during the year ended 31 December 2013 in relation to EnQuest Group's UK tax liabilities for non-operational activities and Petroleum Revenue Tax. It is anticipated that the underlying effective tax rate for 2014 will be approximately 55%, excluding one-off exceptional tax items. With continuing investment in the North Sea, the Group does not expect a material cash outflow for UK corporation tax on operational activities before 2020. This is due to the projected level of capital expenditure, which benefits from tax deductible first year capital allowances in the UK, and accumulated tax losses which are largely attributable to the Group's capital investment programme to date.

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

	2013 $ million	2012 $ million
Expenditure on producing oil and gas assets	**280.7**	323.9
Development expenditure	**632.0**	381.1
Exploration and evaluation capital expenditure	**36.6**	128.4
Other capital expenditure	**21.2**	8.9
	984.3	842.3

Significant projects were undertaken during the year, including:

- the Alma/Galia development including the FPSO and further drilling of the production wells;
- the Kraken development including drilling the head target well, FPSO FEED costs and project management activities;
- the Thistle life extension programme;
- the Thistle drilling programme including the A60 well and A59 well work-over;
- the Dons drilling programme with the DS producer and the OB injector; and
- the Heather/Broom return to drilling programme and additional living quarters.

Net debt at 31 December 2013 amounted to $381.1 million compared with net cash of $89.9 million in 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. A further £10 million was raised in Q4 2013.

Balance sheet

The Group's total asset value has increased by $1,005.7 million to $3,550.5 million at 31 December 2013 (2012: $2,544.8 million).

Property, plant and equipment

Property, plant and equipment (PP&E) has increased to $2,871.2 million at 31 December 2013 from $1,816.6 million at 31 December 2012. The increase of $1,054.6 million is mainly due to oil and gas asset capital additions of $840.7 million. The main spend relates to Kraken ($157.8 million) and Alma/Galia ($437.2 million). There was also a $52.5 million addition in relation to the Alba acquisition, $415.3 million of carry relating mainly to Kraken ($240 million firm carry and $80 million contingent carry) and the unwinding of the remaining Alma/Galia cost carry ($95.3 million). Depletion and depreciation charges of $232.6 million were incurred.

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

	2013 $ million
Dons hub	**69.1**
Thistle hub	**108.6**
Heather and Broom hub	**56.6**
Alma/Galia	**532.5**
Kraken	**477.8**
Alba	**62.5**
Other	**1.4**
	1,308.5

Intangible oil and gas assets

Intangible oil and gas assets increased by $33.4 million to $130.9 million at 31 December 2013. The increase is mainly due to pre-development costs at Scolty/Crathes, the Malaysian asset, an appraisal well at Cairngorm and acquisition of interests in Avalon and Egypt.

Investments

The Group holds an investment of 160,903,958 new ordinary shares in Ascent Resources plc which is valued at $2.4 million based on the quoted bid price as at 31 December 2013.

Inventory

Inventory increased by $31.5 million primarily due to the purchase of xmas trees not allocated to a specific field.

Trade and other receivables

Trade and other receivables have increased by $27.5 million to $267.2 million at 31 December 2013 compared with $239.7 million in 2012. Joint venture and trade receivables remain consistent with the prior year and in line with continued significant capital expenditure on Alma/Galia and Kraken. Prepayments and accrued income decreased primarily due to facility fees for the old facility being fully amortised during 2013. Other receivables have increased due to an increase in the under-lift position and miscellaneous receivables awaiting invoicing.

Cash and bank

The Group had $72.8 million of cash and cash equivalents at 31 December 2013 and $225.8 million was drawn down on the $1.7 billion multi-currency revolving credit facility. Of the facility, at 31 December 2013 $1.2 billion had been committed and further amounts will be available depending on oil reserves, including increases resulting from acquisitions.

OVERVIEW

FINANCIAL REVIEW CONTINUED

Provisions

The Group's decommissioning provision decreased by $4.6 million to $228.4 million at 31 December 2013 (2012: $233.0 million). During the year, the Group commissioned third party experts to complete the detailed triennial study to review decommissioning cost estimates for the operated producing hubs. The outcome of the study confirmed previous cost estimates in many areas, but reduced cost estimates in other areas due to scope of works required or method, time and cost of decommission. Those reductions in estimates were partly offset by the acquisition of the Alba asset and additional drilling on Alma/Galia together with $12.6 million due to the unwinding of the discount.

The Group acquired 40% of the Kraken field from Nautical Petroleum plc and First Oil plc in 2012 through payment of the development costs (other than operator costs) incurred from 1 January 2012 in respect of the development programme for the Kraken discovery which would otherwise have been payable by those partners.

A provision has been recognised for the contingent carry (additional consideration) which is dependent on a reserves determination. The reserves determination would be triggered by the carried parties based on drilling work or, if later, the date on which the firm carry expires. The contingent carry is pro-rated between 100–166 million barrels of 2P reserves. The field development plan which was approved in November 2013, stated 137 million barrels. This would give rise to a contingent carry of approximately $80 million which is included as a provision. The carry is estimated to be paid 12 months after the firm consideration has expired in late 2014 or early 2015.

Income tax

The Group had no corporation tax or supplementary corporation tax liability at 31 December 2013 compared with $3.8 million at 31 December 2012. The decrease of $3.8 million is due to the submission of research and development expenditure claims, prior year tax adjustments and balances arising on acquisition. The Group had a $4 million Petroleum Revenue Tax (PRT) liability at 31 December 2013 compared to no liability at 31 December 2012. The increase is due to the aquisition of Alba, a PRT paying field. The income tax asset at 31 December 2013 represents the expected refund on exploration activities undertaken in Norway.

Deferred tax liability

The Group's deferred tax liability (net of deferred tax assets) has increased by $137.2 million to $746.3 million at 31 December 2013 from $609.1 million in 2012. 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 and the acquisition of the companies holding an 8% interest in the Alba field. Total losses carried forward at the year end amount to approximately $1,088 million.

Trade and other payables

Trade and other payables have increased to $363.3 million at 31 December 2013 from $329.7 million at 31 December 2012. The increase of $33.6 million is due to an increase in trade payables in line with increased activity in the year.

Other financial liabilities

Other financial liabilities have increased by $153.2 million. The main reason for the increase relates to the Kraken firm carry of $164.2 million.

Financial risk management

The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. EnQuest's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months production on a rolling annual basis, up to 60% in the following 12 month period and 50% in the subsequent 12 month period. Between November 2012 and February 2013, put and call options covering 4.6 million barrels of oil production in 2013 were entered into partially to hedge the exposure to fluctuations in the Brent oil price. The 2013 oil price hedge contracts consisted 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.

In August and September 2013, some commodity hedging contracts were entered into partially to hedge the exposure to fluctuations in the Brent oil price during 2014. A total of 3.6 million barrels of puts (300,000 barrels per month) were bought at a price of $106 per barrel and 7.2 million barrels of calls were sold at a price of $106 per barrel, which are only triggered if the monthly average price of Brent exceeds a fixed price for the given month (ranging from $119 to $124 per barrel). Since the year end the Company has swapped an additional 1 million barrels in Q2 at prices of approximately $109 per barrel.

EnQuest's functional currency is US Dollars. Foreign currency risk arises on purchases and the translation of assets and liabilities denominated in currencies other than US Dollars. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 50% of non-US Dollar denominated operating expenditure and 70% of non-US Dollar capital expenditure to be hedged. During the first half of 2013, the Group entered into a series of forward contracts and structured products to hedge a portion of its Sterling, Euro and Norwegian Krone

exposure throughout 2013 and 2014. In 2013, a total of £223 million was hedged at an average rate of $1.51:£1. The structured products have an average strike price of $1.46:£1. If the spot rate at expiry is above $1.64:£1 then there is no trade and the Group funds its Sterling requirement through the spot market or drawing Sterling on the bank facility. Between $1.64:£1 and $1.33:£1, EnQuest trades at the lower of $1.46:£1 and the spot rate, and below $1.33:£1, EnQuest trades a higher volume of currency at $1.46:£1. This structure has also been used for hedging a total of £182 million of Sterling exposure in 2014.

The same structure has also been used to hedge the Group's Norwegian Krone (NOK) exposure which arises as part of the Kraken development project. In 2013, a total of NOK255 million was hedged and in 2014 NOK367 million has been hedged.

In 2013, EnQuest exchanged a total of €74 million for $96 million mainly done by placing forward contracts, however €11 million was placed on the same structured basis as the Sterling and Norwegian Krone arrangements described above. EnQuest will continue to look at opportunities to enter into foreign exchange hedging contracts.

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.

Key performance indicators

	2013	2012
Lost Time Incident Frequency (LTIF)	**1.36**	2.00
2P reserves (MMboe)	**194.76**	128.52
Business performance data:		
Production (Boepd)	**24,222**	22,802
Revenue ($ million)	**961.2**	889.5
Realised oil price per barrel ($)	**109.7**	111.6
Opex per barrel (production and transportation costs) ($)	**35.5**	32.3
Gross profit excluding exceptional items ($ million)	**428.9**	441.3
Cash capex on property, plant and equipment oil and gas assets ($ million)	**984.3**	842.2
Reported data:		
Cash generated from operations ($ million)	**562.7**	593.9
Net (debt)/cash ($ million)	**(381.1)**	89.9
Profit before tax ($ million)	**330.9**	403.4
Basic earnings per share (cents)	**24.4**	46.2
EBITDA	**621.3**	634.6

OVERVIEW

CORPORATE SOCIAL RESPONSIBILITY REVIEW

"The advances we have made in several key areas are testimony to the absolute priority given to our HSE&A activities and our determination to apply extra depth and substance to everything we do in this area"

John Atkinson Head of Health, Safety, Environment and Assurance ('HSE&A')

Health, Safety, Environment & Assurance: Delivery mode

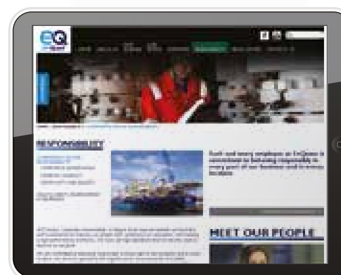
It has been a year of continuing progress across EnQuest's Health, Safety, Environment and Assurance ('HSE&A') landscape.

The advances we have made in several key areas are testimony to the absolute priority given to our HSE&A activities and our determination to apply extra depth and substance to everything we do in this area.

The ongoing roll-out of our HSE&A continuous improvement plan and launch of a comprehensive audit programme are illustrative of our active 'delivery mode' during 2013.

Specifically, the introduction of a new incident investigation procedure, uniquely devised and developed to reflect EnQuest's organisation and operating practices, marked a significant step forward. During the year over 100 personnel were trained in the procedure. It has been set up to work seamlessly with another new feature of the HSE&A environment, our bespoke Synergi incident management software, to create a system that constitutes a step-change in terms of efficiency and effectiveness.

This and other measures, such as the implementation of new control of work systems and practices, and the standardisation of safety equipment deployed across all our operations, represent practical contributions to EnQuest's operations excellence programmes.



See also EnQuest's annual Environmental Reports to DECC and its major development project Environment Statement submissions; available on both the EnQuest and DECC websites.

Within that context, there has been, and remains, a major focus upon the control of major accident hazards. A training and awareness course undertaken by the leadership team at the internationally renowned Spadeadam hazard test facility in Cumbria in early 2013 built momentum behind the work which has also, critically, involved the introduction of a major accident hazard barrier model now being deployed across all EnQuest sites. A continuing and increasing focus on the prevention of hydrocarbon releases is consistent with the industry drive for improvement in this crucial area of major accident prevention.

In the environmental arena, our commitment to meeting our obligations is particularly apparent in our compliance with the increased disclosure requirements under the Department of Energy and Climate Change ('DECC') reporting framework (pages 78 and 79). We have proactively focused our environmental management arrangements on key areas such as produced water discharges and oil and chemical spill prevention. A major initiative is underway to identify and document all Environmental Critical Elements and to put in place measures to ensure the ongoing integrity of such equipment. Aside from the operational and environmental benefits this should deliver, it also prepares the Company for compliance with pending legislative change associated with the EU Directive on Safety of Offshore Oil and Gas Operations.

Evidence of our strong personal safety performance can be seen in our lost time incident frequency ('LTIF') rate, which for 2013 stood at 1.36. The figure, which reflects the number of incidents per one million working hours, compares favourably with the latest available industry average of 1.89 for 2012.

A series of initiatives has served to ensure health awareness and improvements have been a consistent focus of attention both offshore and onshore. We have worked to create a relationship with our Occupational Health support provider that constitutes a value adding partnership. There is now a greater framework of systems and support for our offshore medics as they perform their everyday duties. More broadly, an ongoing programme of health promotion activities has featured desk drops on specific health and well-being issues.

Looking ahead, our continual improvement plan for 2014 is in place with the focus on four central themes, namely: Leadership and Culture; Control of Major Accident Hazards; Personal Health and Safety, and Environmental Controls. A series of managed activities sits behind each headline theme and implementation of the plan will be championed and monitored by our senior leadership team.

1.36 LTIF

1.36 was EnQuest's LTIF (lost time incident frequency) rate for 2013

ENQUEST VALUES

RESPECT

Respect is a fundamental value which we must follow if we wish to grow our business and achieve our goals, both personally and professionally. For me, respect should be the only way in which we operate as a business; having respect for safety, personnel, the environment and for one another is critical if we want to succeed.

Rosann Middleton
Senior Human Resources Advisor

OVERVIEW

CORPORATE SOCIAL RESPONSIBILITY REVIEW CONTINUED

"The variety of fund raising activities organised has served to enhance the spirit of teamwork and collaboration which we believe is a fundamental quality of our business"

Three Peaks Challenge on behalf of Archway raised in excess of £2,250.

Over

£116,000

Total EnQuest funds raised for Archway by the end of 2013

Community: Forging relationships

The principle of sustainability extends beyond our core business activities into our community and charity work.

The relationship we have developed with Aberdeen based organisation Archway epitomises this approach. Archway works to improve the quality of life of children, young people and adults with learning disabilities throughout Aberdeen and Aberdeenshire. When we nominated Archway as our chosen charity in April 2012, we aimed to raise £100,000 on its behalf in two years. By the end of 2013, we had already raised over £116,000.

Importantly, however, we have done so by building a partnership with the charity from the outset. It is a partnership that reflects many of our company values and is about much more than providing financial assistance. Many people in EnQuest now feel a genuine affinity with the organisation. More than that, the variety of fund raising activities organised on its behalf has served to enhance the spirit of teamwork and collaboration which we believe is a fundamental quality of our business.

The fund raising efforts of EnQuest teams and individuals for Archway have included a golf tournament which raised over £50,000, a 300km cycling challenge over the north-east of Scotland's highest roads, and a sponsored climb of the highest peaks in Scotland, England and Wales. They have also included a musical evening in Aberdeen and many other one-off events. EnQuest is raising money for Archway's Appeal for Betty's Place, a project to establish a specially adapted holiday cottage and specialist facilities for the people that the charity supports.

Our other main focus of community activity has been Tullos Primary School in Aberdeen. In line with our community involvement principles, our long standing support for the school has extended beyond financial help, and in 2013 included active participation by EnQuest personnel in its science week activities.

More broadly, EnQuest's charity committee meets on a regular basis to consider individual requests for support that meet the criteria set out in our Community and Charity Policy.

Our people: Expanding our horizons

EnQuest's growth in 2013 was clearly apparent in our workforce statistics; a total of 86 employees and 199 contractors joined us. That took our direct workforce at the end of 2013 to approximately 600, an increase of 100 over the year. When offshore contractors and shipyard projects are included, the overall figure rises to around 1,800. Our 2013 attrition rate of 9% again compared favourably with the wider industry.

Over the course of 2013, as EnQuest added new dimensions to its UK operations and extended its geographical presence, a great deal of time and resources was directed at embedding organisational practices that befit our growing business.

Our core principles were used to shape our People and Organisation strategy, which has provided the backdrop to much of our 2013 activity and will continue to do so. The strategy, in effect a 'road map' to sustainable business growth, is founded upon four themes: the right organisation, with great people, who deliver exceptional performance, in the EnQuest way. We put a series of initiatives and enabling events in place over the year to convert those themes into practical reality. Those 'big moments', across all four themes, have served to create a momentum which will carry the work forward into 2014 and beyond.

EnQuest's growth was also evident internationally in the development of our Malaysian operations and the creation of an EnQuest team in Tunisia following our acquisition of interests there. Skills and experience from our UK operations have been 'exported' to support the establishment of our operations in Tunisia. Nevertheless, we have spent time in our international locations, telling the EnQuest story and ensuring all our people there possess the necessary knowledge and understanding to embrace our working principles and values.

DIVERSITY POLICY

The Board works hard to ensure that it is able to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. We believe that diversity amongst directors contributes towards a high performing, effective Board.

EnQuest recruits where it works and 99% of our workforce is made up of local staff. Our gender statistics are representative of the demographics of the wider Oil & Gas industry and are made up as follows:

Category	Male	Female	% (Female)
Directors	6	1	14%
Senior managers	79	5	6%
Total employees	262	80	23%

Longest Day Cycle Challenge raised in excess of £15,500.

While we want our international teams to operate independently, and remain directly accountable for their performance and results, they are nevertheless part of the EnQuest family and it's important that our core principles are consistently applied, wherever we are working.

EnQuest's efficient and progressive HR practices were also evident in the logistical exercise undertaken to relocate the EnQuest Producer project to Tyneside in late 2013. It involved a significant effort by the team, which delivered a smooth and professional operation to transfer the large number of personnel involved in the programme.

At a corporate level, we demonstrated our commitment to transparency via full compliance with the legislative disclosure requirements associated with executive remuneration.

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 25 March 2014.

Stefan Ricketts
General Counsel and Company Secretary

GOVERNANCE

BOARD OF DIRECTORS

DR JAMES BUCKEE
Chairman

Appointed: 22 February 2010

Committees: Nomination (Chairman)

Skills and experience: 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.

Other principal external appointments: Non-executive director 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

Appointed: 22 February 2010

Skills and experience: Amjad Bseisu 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 having previously been a founding non-executive director of Serica Energy plc and Stratic Energy Corporation.

Other principal external appointments: Non-executive chairman of Enviromena Power Systems, a private company and the leading developer of solar services in the Middle East.

An experienced leadership team
The balance of Executive and Non-Executive Directors brings a broad range of industry, commercial and other relevant experience to the Board, which is vital to the management and governance of EnQuest's growing business.

JONATHAN SWINNEY
Chief Financial Officer

Appointed: 29 March 2010

Skills and experience: Jonathan Swinney 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, and left in 2010 to join EnQuest PLC.

HELMUT LANGANGER
Senior Independent Director

Appointed: 16 March 2010

Committees: Remuneration (Chairman), Audit and Nomination

Skills and experience: 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.

Other principal external appointments: Non-executive director of Schoeller Bleckmann Oilfield Equipment A.G. (Austria), Serinus Energy Inc. (formerly Kulczyk Oil Ventures Inc.) (Poland and Canada) and MND (Czech Republic).

DR PHILIP NOLAN
Non-Executive Director

Appointed: 1 August 2012

Committees: Audit, Nomination and Remuneration

Skills and experience: 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.

Other principal external appointments: Non-executive chairman of John Laing plc. Phil also serves as chairman at Ulster Bank Ltd and at Affinity Water. He is also a non-executive director of Providence Resources P.l.c.

JOCK LENNOX
Non-Executive Director

Appointed: 22 February 2010

Committees: Audit (Chairman), Nomination and Remuneration

Skills and experience: Jock Lennox holds a Law degree and in 1980 qualified as a chartered accountant with Ernst & Young LLP, Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at Ernst & Young LLP, London, and retired in 2009.

Other principal external appointments: 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

Appointed: 1 July 2011

Committees: Audit, Nomination and Remuneration

Skills and experience: 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 director general of Ofgas, the UK gas regulator. From 2002 to 2007 Clare was a non-executive director of Tullow Oil plc.

Other principal external appointments: Non-executive chairman of Gas Strategies Group Limited and Flow plc and non-executive director of G4S plc, Ilika plc, the Payments Council and The Royal Bank of Canada Europe.

GOVERNANCE

SENIOR MANAGEMENT

RICHARD HALL
Head of Major Projects

Richard graduated from Leeds University with a BSc in Chemical Engineering and spent the first 10 years of his career gaining experience with operating oil companies (Amoco, Hess and Murphy Petroleum) as a supervisor in offshore field operations, petroleum engineering, project management and execution, and commercial negotiations. Richard was one of four founders and operations director of the service company UWG Ltd (now known as Acteon Group) which won the Institute of Petroleum Platinum award in 2001. He formed and led a team which won the prestigious Queen's Award for Export. He subsequently went on to join Petrofac as vice president of operations & developments and, in addition, became general manager in Malaysia. Before joining EnQuest Richard was CEO and co-founder of Nio Petroleum which was acquired by EnQuest in 2012 with Richard joining the senior management team as Head of Major Projects.

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. From 1994 to 2009 Nigel was executive vice-president, international operations for Talisman Energy Inc based in Calgary, heading operations for the UK, Norway, Netherlands, Algeria, Sudan, Malaysia, Indonesia, Vietnam, Peru, Colombia and Trinidad; during this period international production grew from zero to 250,000 Boepd. In 2010 Nigel joined EnQuest PLC as COO, at the end of 2012 he adopted his current role.

DAVID HESLOP
Managing Director UKCS

David graduated with a BSc in Aeronautical Engineering from Manchester University and subsequently gained an MSc in Petroleum Engineering from Imperial College. 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 has a Masters degree in Petroleum Engineering from Heriot-Watt University 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.

FAYSAL HAMZA
Head of International

Faysal 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).

GRAHAM COOPER
Head of Business Development

Graham 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. From 2011 to 2013 Graham was also a non-executive director of Ascent Resources PLC.

STEFAN RICKETTS
General Counsel and Company Secretary

Stefan 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, who graduated from the University of Bristol with a degree in law, began his early career as a solicitor 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.

GRAEME COOK
Human Resources 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.

GOVERNANCE

CHAIRMAN'S LETTER

Dear Shareholder

As the Company continues to grow both operationally and geographically, your Board recognises the challenge to ensure that we have the right people and processes in place and remains focused on effective risk management in order to create long-term sustainable value for the benefit of all stakeholders. While the Board can and does provide leadership, the good reputation of the Company depends upon the behaviour of every single employee and contractor, which is why we seek to maintain an environment where everybody feels responsible for the future success of the business.

Corporate governance

Our approach to governance remains unchanged from last year. It begins with the recognition that it is not a set of rules, but the framework supporting the core values which defines what is and what is not acceptable. The Board sets clear expectations for conduct throughout the business, embracing difficult issues and being honest and open in business dealings. The governance framework, and perhaps more importantly the corporate culture and human relationships that underpin all governance frameworks, are operating well, but we are always striving to foster improvements whenever these become apparent.

Within our governance framework we have three main Board committees: Audit Committee; Remuneration Committee; and Nomination Committee, which assist the Board in fulfilment of its corporate governance objectives. The core functions and activities of each can be found in their respective sections. In addition to this, our governance framework also contains several non-Board committees, including an Executive Committee, Operations Committee and the Group Health, Safety, Environment and Assurance team. Throughout this period we have given particular attention to the alignment of our assurance and risk processes and have made positive changes in order to improve their interaction and the flow of information.

Board composition and succession planning

As Chairman, my role is to manage the Board, ensuring it operates effectively and contains the right balance of skills and experience to successfully execute the Company's strategy. Your Board has devoted significant time to ensuring that we have effective succession and talent development programmes in place, and ensuring that the leadership teams have the right mix of skills in order to help ensure that the Company's development plans can be successfully executed.

2013 was a year of stability within our Board structure, enabling us to focus our attentions on succession planning along with training and development.

Board performance evaluation

At the beginning of the 2013 financial year, we measured the performance of our Board by an externally facilitated board effectiveness review, conducted by Consilium Board 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, including by having a separate discussion with the Senior Independent Director. The outcome was positive, and summarised findings can be found on pages 50 and 51.

In addition to this, at the end of the financial year under review, we conducted an internal board effectiveness review, including a review of the Chairman, further details of which are outlined on page 51.

Strategy

The Board continued to provide strategic guidance to executive management throughout the year, which culminated in EnQuest's annual Board strategy day in October 2013. The workshop involved a comprehensive review of our existing strategy as well as identification of key themes to help us navigate changes in the landscape for our business. We are confident that our strategy has positioned us well to achieve our long term goals and to maximise shareholder value.

People

Our results are a reflection of the quality of our people throughout the Group, and on behalf of the Board I would like to thank all my EnQuest colleagues for their continued hard work, commitment to our values, and successful pursuit of the Company's development plans.

Dr James Buckee
Chairman

CORPORATE GOVERNANCE STATEMENT

Statement of compliance

EnQuest is committed to the principles of corporate governance contained in the UK Corporate Governance Code (the 'Code') as issued by the Financial Reporting Council in September 2012. As a listed company, EnQuest reports on how it has complied with the provisions of the Code, as detailed below. The Board is pleased to report that the Company has complied with all the provisions of the Code throughout the year under review.

Board composition

The Board of Directors is currently made up of two Executive Directors and five Non-Executive Directors, including the Chairman. All of the Directors served throughout the reporting period. Their biographies, including prior experience, are set out on pages 44 and 45.

EnQuest's policy is to hire the best candidates for all purposes at all levels throughout the business, irrespective of gender, including candidates at Board level. With one female Non-Executive Director, Clare Spottiswoode, 14% of the current Board is female. Our overall gender statistics, which can be found on page 76 of the Nomination Committee report, are representative of the demographics of the wider oil and gas industry. At present, the Board has not set any specific aspirations in respect of gender diversity at Board level. However, the Board recognises the benefits of gender diversity and will continue to ensure that this is taken into account when considering any particular appointment.

Whilst there were no changes to our Board of Directors in 2013, Paul Waters stepped down as Company Secretary in October 2013. Paul had served at EnQuest since its inception and was instrumental in its flotation in 2010. Stefan Ricketts, in addition to his existing role as General Counsel has assumed the position of Company Secretary.

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 management. Operational management of the Group on a day-to-day basis is managed by the Operations Committee, which comprises members of the Executive Committee, Asset Managers and selected senior management.

Chairman and Chief Executive

The Chairman is an independent 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 its duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

Role of the Non-Executive Directors

The Non-Executive Directors have a mix of business skills, knowledge and experience which allows them to provide strong, independent judgement and an external perspective to the Board discussions. In turn, this leads to a diversity of views being aired at Board meetings, robust and constructive debate and an environment conducive to optimal decision making. At the same time, it reduces the likelihood of undue dominance from any one perspective.

A key role of the Non-Executive Directors is to scrutinise the executive management in meeting agreed objectives and to monitor the reporting of performance. The Non-Executive Directors, in conjunction with the Chairman, meet at least once annually in order to facilitate this. They also ensure that financial controls and systems of risk management are both rigorous and appropriate for the needs of the business.

Senior Independent Director

Helmut Langanger continues to be the Senior Independent Director. His role is designed to give comfort to fellow Directors and shareholders that there is a Director on the Board to whom they can turn if ever they have concerns about the way the Board is being run which they cannot address with the Chairman. His role also is to provide a sounding board for the Chairman and to serve as an intermediary with other Directors when necessary. The Senior Independent Director meets with the other Non-Executive Directors without the Chairman present at least annually in order to evaluate the performance of the Chairman. The outcome of their 2013 evaluation was positive.

How the Board operates

During 2013, six scheduled meetings of the Board were held, five of which were held at the Company's registered office in London, and one meeting was held offsite. Details of attendance at each of those meetings, and at meetings of the principal 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

CORPORATE GOVERNANCE STATEMENT CONTINUED

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.

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 2013:

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held in 2013	6	3	3	1
Executive Directors				
Amjad Bseisu[1]	6	n/a	n/a	1
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	5	2	3	0
Clare Spottiswoode	6	3	3	1

Notes:
n/a not applicable where a Director is not a member of the Committee.
1. Amjad Bseisu, Jonathan Swinney and James Buckee have attended Committee meetings by invitation. These details have not been included in the table.

Phil Nolan missed one Board meeting, one Audit Committee meeting and one Nomination Committee meeting, each occurring on the same day. These meetings were missed due to unavoidable business commitments. The Chairman and Non-Executive Directors have provided assurance to the Board that they remain fully committed to their respective roles and can dedicate sufficient time to meet what is expected of them.

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 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.

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.

Board evaluation

The Board evaluation process consists of an annual internal review exercise together with an independent third party evaluation carried out at least once every three years.

A thorough external Board effectiveness review was conducted at the beginning of the 2013 financial year by Consilium Board Review, who have no connections to the Company. 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 outcome was positive.

The review confirmed 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 review generated a number of insightful suggestions which have been implemented by the Board, which have included:

- the Board agenda has been streamlined in order to ensure that key issues have been allocated sufficient time for Board consideration and discussion, by separating the reports for discussion/information against reports that require Board approval;
- improved format for Board papers; and
- a 12-month rolling agenda has been prepared in order to ensure that the Board addresses all of the key issues throughout the year.

At the end of the financial year under review, we conducted an internal Board effectiveness review, which consisted of a discussion between the Senior Independent Director and the Non-Executive Directors to discuss the Chairman's performance, and a questionnaire sent to the full Board by the Chairman seeking opinions on the performance and effectiveness of the Board, its Committees and individual Directors. The principal areas covered within the questionnaire were:

- strategy and investment matters;
- interaction with shareholders;
- internal control and corporate governance;
- administration, support and development of the Board; and
- Board membership and proceedings of meetings.

The outcome of this process was discussed by the Board as a whole and the Board agreed that the Company is served by a strong, cohesive Board. Certain recommendations have been added to the Board action list for implementation, some of which, such as conducting a technical review the day before Board meetings, have already been trialled with success.

Human rights

The Company recognises the importance of having high standards in all areas of governance, this includes the area of human rights. In line with the recent expansion of our overseas activities we are refining our approach to these areas to ensure that the Company's policies are robust for international as well as local operations. Our values will remain consistent with our existing Code of Conduct and will comply with all applicable laws.

Anti-bribery and corruption

In 2013 we further embedded and extended our anti-corruption programme, including launching a Group-wide training programme for all employees. By the end of the year the greater majority of our employees had completed the training, which is being extended to all new joiners.

We encourage our people to raise any issues or concerns they may have either internally or through our external 'Speak Up' reporting line. There was one 'Speak Up' case reported in 2013, which was resolved satisfactorily.

Relations with shareholders

The Company has an investor relations programme through which the Chief Executive, the Chief Financial Officer and senior management regularly meet with major shareholders. In 2013, numerous investor and broker sales meetings were held, presentations were made at international conferences and a capital markets day was held in London, 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.

Corporate governance at EnQuest is designed to promote the long term interests of our shareholders, strengthen management accountability, and foster responsible decision making. At the end of the 2013 financial year we invited the Governance Officers from our leading institutional shareholders to an opportunity to meet with the Chairman and Senior Independent Director in order to discuss any governance issues that they may wish to raise with the Company. This invitation was made in order to help ensure that we are openly promoting high standards of corporate governance.

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.

2013 Annual Report

Following extensive review, the Board has concluded that the 2013 Annual Report and Accounts, as a whole, is fair, balanced and understandable and provides the information necessary for users to assess the Company's performance, business model and strategy.

Annual General Meeting

The Board uses the Company's Annual General Meeting ('AGM') to communicate with investors and welcomes their participation. All shareholders, or their duly appointed proxies, are entitled to attend the AGM, at which the Board members are present. The Board views the AGM as a good opportunity to meet with smaller private shareholders. A summary presentation of results is given by the Chief Executive before the Chairman deals with the formal business. All shareholders present can question the Chairman, the Chairmen of the Committees and the rest of the Board both during the meeting and informally afterwards.

AUDIT COMMITTEE REPORT

Dear Shareholder

Strong governance is a key feature of the way EnQuest manages its business and risks. The Audit Committee has a vital role in providing assurance that the financial statements provide a true and fair view of the Group's financial affairs and that our internal business control systems remain effective. The way in which the Audit Committee discharged these responsibilities in 2013 is set out in this report.

During 2013 the Committee's work has focused on three key areas. Firstly, we considered the integrity of our financial statements, and the key judgements and estimates that underpin these. Details of these, and how we satisfied ourselves as to their appropriateness, are set out in detail below. Secondly, we monitored the effectiveness of our internal controls, primarily through reviewing the work of our internal auditors in executing our approved internal audit plan, and feedback from our external auditors. And finally, we monitored the activities and performance of both our internal and external auditors, assessing their quality, independence and objectivity. Further, we re-evaluated whether we should build our own internal audit team, or whether the current outsource arrangement remained appropriate. Further details of our work are outlined below, and full details of the Committee's terms of reference can be found on our website.

In addition to these activities, in the light of the significant spend on our new developments, Alma/Galia and Kraken, the Committee has spent time considering the effectiveness of our cost forecasting processes and cost controls over major capital projects. We will continue to focus on this area with assistance from our newly appointed internal auditors, PricewaterhouseCoopers LLP ('PwC'), during 2014.

As the size and complexity of EnQuest continues to grow, the Audit Committee is proactively directing activities to ensure the Group's governance and control mechanisms are appropriately expanded. Examples of how we will be doing this over the coming year include:

- during 2013 management started an exercise to identify the various assurance activities taking place around the Group. During 2014 the focus will be developed further through an assurance mapping exercise to be conducted by PwC. This will ensure that the Board has appropriate assurance over the Group's risks and other areas of their responsibilities whilst avoiding duplication of effort; and
- embedding the Group's risk management policies and governance and control mechanisms in our international locations.

Jock Lennox
Chairman of the Audit Committee
25 March 2014

Role of the Audit Committee

The remit of the Audit Committee is summarised below and is detailed in full in its terms of reference, a copy of which is available on the Company's website www.enquest.com under investors/shareholder centre. The main responsibilities of the Committee are to:

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

Committee composition

As required by the Code, the Committee is comprised exclusively of Non-Executive Directors, biographies of whom are set out on pages 44 and 45. The Board is satisfied that the Chairman of the Committee, a previous audit partner of a Big Four audit firm and member of the Institute of Chartered Accountants in Scotland, meets the requirement for recent and relevant financial experience.

Membership of the Committee and attendance at the three meetings held during 2013 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox (Chairman)	22 February 2010	3/3
Clare Spottiswoode	1 July 2011	3/3
Helmut Langanger	16 March 2010	3/3
Phil Nolan	1 August 2012	2/3

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer and the Group Financial Controller and the external auditors. The Chief Executive and Chairman of the Board also attend the meetings when invited to do so by the Committee. Deloitte LLP, in their role as internal auditors during 2013, attended the meetings 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.

Meetings during 2013

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

Agenda item	Aug 2013	Dec 2013	March 2014
Key risks, judgements and uncertainties impacting the half-year and year-end financial statements (reports from both management and EY)	✓	✓	✓
Internal audit findings since last meeting	✓	✓	✓
Internal audit plan for 2014		✓	
Re-evaluate appropriateness of outsourcing internal audit		✓	
Results of internal audit re-tender		✓	
Review and approve external audit plan, including key risks and planned approach		✓	
Approve external audit fees subject to the audit plan		✓	
Review level of non-audit service fees for EY	✓		✓
Evaluate quality, independence and objectivity of EY	✓		
Evaluate management's planned approach to giving Board comfort on 'fair, balanced and understandable' statement		✓	✓
Corporate governance update	✓	✓	✓
Presentation on the reserves audit and evaluation of their independence and objectivity			✓
Internal control update for international locations	✓		✓
Appropriateness of going concern assumption	✓		✓

Financial reporting and significant financial statement reporting issues

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

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

We consider these items together with both management and our external auditors, who both provide reports to the Audit Committee in respect of these areas at each Committee meeting. The main areas considered during 2013 are set out below:

Significant financial statement reporting issue	Consideration
Potential misstatement of oil and gas reserves The Group has total proved and probable reserves at 31 December 2013 of 194.8 MMboe. The estimation of these reserves is essential to: ‣ the value of the Company; ‣ assessment of going concern; ‣ impairment testing; ‣ decommissioning liability estimates; and ‣ calculation of depreciation.	In the March meeting, management presented the Group's 2P reserves, together with the report from Gaffney Cline, our reserves auditor. We considered the scope of the work performed by Gaffney Cline and their independence and objectivity. We also considered the work performed by our external auditors, EY, in asserting the independence and objectivity of Gaffney Cline.
Impairment of tangible and intangible assets Significant capital expenditure is incurred on projects and the fair value of these projects is a significant area of judgement. At 31 December 2013, a total of $3.0 billion was capitalised in respect of oil and gas assets and goodwill, the recovery of which is dependent upon the expected cash flows of the underlying assets.	Considered and challenged the key assumptions made by management. Consideration was also given to EY's view of the work performed by management.
Adequacy of the decommissioning provision The Group's decommissioning provision is carried at $228 million at 31 December 2013, which is based on a discounted estimate of the future costs and timing to decommissioning the Group's assets. Judgement exists in respect of the estimation of the costs involved, and timing of decommissioning activities.	The Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each of our operated fields and facilities. We reviewed the report by management summarising the key findings and their impact on the provision. Regard was also given to the observations made by EY as to the appropriateness of the estimations made.
Tax The Group carries deferred tax balances at 31 December 2013 totalling $868 million of tax assets and $1,618 million of tax liabilities. Given the complexity of certain tax legislation, risk exists in respect of some of the Group's tax positions.	We received a report by the Group's Head of Tax, outlining all uncertain tax positions, and evaluated the technical arguments supporting the position taken by management. We also took into account the views of EY as to the adequacy of our tax balances.

AUDIT COMMITTEE REPORT CONTINUED

Internal controls

We discharge our responsibility in respect of the Group's internal control environment through directing and reviewing the work performed by our outsourced internal auditors, considering the reports issued by our external auditors, and through the reports issued by management in respect of internal controls. Further, we have regard for the other assurance activity performed by the Group's Health, Safety, Environment and Assurance team over the operational and HSE risks within the Group.

In respect of the work performed by the internal auditors, we set the internal audit plan each year. When setting the plan we consider recommendations from management, the internal auditors, and having consideration of the risks impacting the Company, which are reviewed by the Board. The 2013 internal audit plan focused on:

- the processes and controls in place in respect of cost forecasting for our major projects;
- a post implementation controls review of both the finance (Sunsystems) and procurement (Maximo) systems implemented during 2013;
- reviewing the controls and processes supporting the purchase to pay process;
- a supply chain management effectiveness review;
- an HR report following up on the status of findings from a previous internal audit; and
- reports detailing the controls planned to be implemented to support the Group's international activities.

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

Internal audit

Since the flotation in 2010, the Group has outsourced its internal audit function to Deloitte LLP on the basis that this would be more efficient and effective than building an in-house function. We reviewed that position during the year, and concluded that an outsourced function remains the most appropriate for a company of this size. We will continue to keep this under review.

Together with management, a decision was taken to re-tender the internal audit contract. This was in keeping with best practice corporate governance, and in recognition of the fact that the initial three-year audit cycle had been completed. A key selection criteria considered during this process was the level of experience and credentials in respect of capital project management that each firm would bring to EnQuest. Following this re-tender PwC were appointed as EnQuest's internal auditors.

External audit

One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of EY, EnQuest's external auditor, who has been the Group's auditor since 2010. Each year the Committee will review and agree the audit plan and the associated fees. The process for reviewing the performance of EY 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 EY when determining whether or not to recommend their reappointment.

We formally evaluated the effectiveness of EY during our August meeting, and concluded that the Committee continues to be fully satisfied with the performance of EY, and that EY continues to be both objective and independent. As part of this process, the Committee considered the level of non-audit service fees provided by EY during the year, the compliance with our policy in respect of the provision of non-audit services by the auditor, and the safeguards in place to ensure continued independence and objectivity of EY.

In recommending to reappoint EY for 2014, the Committee took note of the reduction from the prior year in both the absolute size of non-audit fees (from $898,000 in 2012 to $361,000 in 2013), and their size relative to audit fees (from 213% in 2012 to 53% in 2013). The Committee expects the ratio of non-audit to audit to remain below 1:1 going forward.

Use of external auditors for non-audit services

The Audit Committee and Board believe that the external auditors' independence and objectivity can potentially be affected by the level of non-audit services to EnQuest. However, the Committee acknowledges that certain work of a non-audit nature is best undertaken by the external auditor. To ensure objectivity and independence, the Committee has adopted a policy in relation to the provision of non-audit services by its external auditor. As part of this process the external auditors provide the 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. EY confirmed their independence and objectivity.

The key features of the non-audit services policy, the full version of which is available on our website, are as follows:

- a pre-defined list of prohibited services has been established;
- a schedule of services where the Group may engage the external auditor has been established and agreed by the Committee;
- any non-audit project work which could impair the objectivity or independence of the external auditor may not be awarded to the external auditor; and
- delegated authority by the Audit Committee for the approval of non-audit services by the external auditor is as follows:

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

EY has served as the Company's auditors since the Company was first formed in January 2010, and has conducted each of the Company's external audits since formation. The Committee has adopted the recently implemented requirement of the Code that FTSE 350 companies tender their external audit contracts every 10 years and, in line with this policy, will re-tender this function in 2020, if not sooner. The Committee is aware of the EU developments that may make rotation of audit firms mandatory and may introduce further restrictions on the provision, by the auditors, of non-audit services. We will keep these developments under review.

Raising concerns at work

Throughout the year, a whistleblowing procedure, titled the 'Speak Up' reporting line, has been in place across the Group. This allows employees and contractors confidentially to raise any concerns about business practices through an independently appointed third party. Any disclosures under these arrangements are investigated promptly and notified to the Chairman of the Audit Committee, with follow-up action being taken as soon as practicable thereafter.

Anti-bribery and corruption

The Company has a zero tolerance approach to bribery and corruption. The Group Code of Conduct and other policies to combat bribery are issued to all employees, with training provided to ensure an understanding and awareness of the requirements of the policy.

DIRECTORS' REMUNERATION REPORT 2013

Dear Shareholder

On behalf of the Board I am pleased to present EnQuest's report on its remuneration policy and practice for the financial year ended 31 December 2013.

In addition to this opening statement, the report has three main sections:

1. Governance of remuneration at EnQuest.
2. The policy report which sets out the policy for the remuneration of Directors for the current and future financial years. The policy report will be subject to a binding vote at the 2014 Annual General Meeting ('AGM') and will take effect from January 2014.
3. The remuneration report of the Executive Directors and Non-Executive Directors during 2013 which will be subject to an advisory shareholder vote at the 2014 AGM.

Our approach to remuneration

EnQuest has seen continued growth since it was formed in 2010 and the Remuneration Committee is dedicated to ensuring that the remuneration policy supports business strategy, the highest levels of Company performance and governance, and through this, the delivery of shareholder value. The link between performance and reward is central to the remuneration philosophy throughout the Company, and all of EnQuest's employees are aligned to organisational performance through the use of incentive schemes as part of their remuneration packages.

To align the Executive Directors with Company performance in both the short term and long term, the fixed remuneration element of their package is typically set below the market median, and is currently around the lower quartile level, relative to the oil and gas marketplace, with the intent that high levels of individual and Company performance will result in the variable elements of their packages delivering total reward at, or around, the upper quartile level. We believe that gearing our Executive Directors' remuneration towards both short-term and long-term individual, and Company, performance is the appropriate way to deliver exceptional shareholder value.

EnQuest's long-term incentive plan is entirely performance-based and promotes a longer-term focus on the delivery of Company strategy. This adds a further layer of alignment between the Board, executive management, and shareholders. The performance conditions comprise targets set against total shareholder return relative to a comparator group of oil and gas companies, production growth per share, and reserves growth per share.

The Committee has revisited the remuneration policy for the Executive Directors for the first time since IPO in 2010 and are proposing changes to the annual bonus and Performance Share Plan. Details of these changes are summarised below and included in the policy report and will ensure the Executive Directors are suitably incentivised to achieve upper quartile levels of variable pay in return for superior performance.

Remuneration outcomes for 2013

Once again, EnQuest has delivered excellent shareholder value with Total Shareholder Return ('TSR') being in the top quartile, relative to its oil and gas peers, over the last three years. Production was up by 6% in 2013 to 24,222 Boepd and the net 2P reserves base increased by 66 MMboe to 194.8 MMboe. The Kraken project was sanctioned and progress continues to be made in getting the Alma/Galia development on stream in 2014. Remuneration awards for 2013 were commensurate with the performance of EnQuest and the stretching targets set by the Company.

2013 annual bonus

The Executive Directors' annual bonus awards are based on a combination of financial and operational results and the achievement of strategic and personal objectives. Awards of 100% of base salary (50% of maximum) for Amjad Bseisu and 101% for Jonathan Swinney (51% of maximum) have been made in respect of 2013. Further details of how these awards were determined are set out on pages 67 to 68. The Committee considers these levels of awards to be appropriate in light of the strong operational results and the significant achievement in the sanctioning of the Kraken development which were offset by delays to the Alma/Galia project coming on stream.

2011 Performance Share Plan ('PSP') award

The 2011 PSP award, which had a three-year performance period ending 31 December 2013, vested at 66.7% of the maximum. Two of the three performance conditions were met in full (TSR and reserve growth per share), however the threshold production growth per share performance condition was not met. Details on the satisfaction of these performance conditions are included in the report.

Executive remuneration review – 2014 and beyond

The Committee reviewed its policy for Executive Directors at the beginning of 2014. We continue to believe that our remuneration structure should be closely aligned to shareholder returns, reflect best practice, be set against a backdrop of EnQuest's growth strategy and Company values, and take into account the challenges of the industry in which we compete. We believe that an executive remuneration policy of below median fixed pay, with the potential for upper quartile total reward, continues to be the most appropriate model for the delivery of shareholder value. Our executive remuneration structure remains aligned with the aspirations of shareholders, appropriate for our growth aspirations and therefore largely unchanged.

Base salaries

For 2014, base salary increases for Amjad Bseisu and Jonathan Swinney were 4.9% and 6.1% respectively. These have been set by the Committee and take into account Company and individual Director performance. This continues to position their base salaries around the lower quartile of the oil and gas industry and the FTSE 250, which is in line with our policy of below median fixed pay.

Changes to the annual bonus scheme

During 2013 the Company changed its annual bonus model for all employees in order to fully align their bonus outcomes to how the Company performs. In 2013, Amjad Bseisu's annual bonus was based solely on Company performance, while Jonathan Swinney had an 80% weighting on Company performance with a separate 20% based on personal objectives. From 2014 it is proposed that Jonathan Swinney's bonus have separate corporate and personal elements with the outcome of the corporate scorecard subject to an individual performance modifier. Amjad Bseisu's bonus will be based solely on the corporate scorecard.

The corporate element will be assessed against a weighted scorecard of Company metrics, each of which have threshold, target, and stretch objectives and performance outcomes for each component will be determined within these boundaries. The maximum bonus will be increased from 200% to 225% for both Executive Directors. This increase will be accompanied by a corresponding increase in the level of stretch required for a maximum payout. On-target opportunity will remain the same. These changes will increase the link to annual performance and enable Executive Directors to earn market appropriate levels of variable reward.

In line with best practice, we are also introducing 'clawback' provisions into the annual bonus and PSP schemes from 2014. More details of this are included in the report.

PSP

EnQuest's policy is that award levels should vary from year to year based on Company and individual performance. For PSP awards made in 2013, relating to the 2012 performance year, the Committee felt that it was appropriate to grant levels of awards equivalent to 160% of 2012 base salary for Amjad Bseisu and 152% for Jonathan Swinney. These awards were based upon the level of Company performance in the case of Amjad Bseisu and both the Company and individual performance in the case of Jonathan Swinney.

Awards under the PSP have been reviewed by the Committee to ensure that the overall remuneration for Executive Directors is consistent with long-term Company performance and our ability to retain our key executives. As levels of fixed pay are currently positioned around the lower quartile of the marketplace, the opportunity to achieve appropriate levels of remuneration in return for upper quartile total shareholder return has been reviewed. As such, it is proposed that the maximum levels of award under the PSP for stretch performance will be increased from 200% to 300% of base salary from 2015. Annual awards will continue to be determined by the Committee taking account of Company and individual performance in the year prior to grant. The increase in the maximum will provide the Committee with greater flexibility to reflect performance but it is only intended that awards in excess of 200% of salary would be made in years where stretch levels of corporate performance have been achieved. As the existing normal limit in the PSP is 200% of salary (300% in exceptional circumstances), this will require shareholder approval for a change to the PSP rules and we will be consulting with shareholders later in 2014 about this change.

After due consideration of Company performance in 2013 and other factors, it was considered by the Committee that the appropriate level of awards under the PSP would be 200% of base salary for 2013 for Amjad Bseisu and 182% of base salary for Jonathan Swinney.

We are committed to transparent communication and I hope you find this report of the Committee's work comprehensive, clear and understandable. I hope you will support the resolution to vote for this Directors' Remuneration Report and look forward to receiving your support at the forthcoming AGM.

Helmut Langanger
Chairman of the Remuneration Committee
25 March 2014

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

GOVERNANCE AND APPROACH

General governance

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 as amended in August 2013. It also describes the Group's compliance with the Code in relation to remuneration. The Committee has taken account of the new requirements for the disclosure of directors' remuneration and guidelines issued by major shareholder bodies when setting the remuneration strategy for the Company.

This is the first time the Company has prepared the report in accordance with the amended regulations and the remuneration policy will take effect from the 2014 AGM.

Terms of reference

The Committee's terms of reference are available on our website or on request. The remit of the Committee embraces the remuneration strategy and policy for the Executive Directors, senior management, and in certain matters, for the whole Company.

Meetings in 2013

The Committee normally meets at least twice per year. During 2013 it met three times to review and discuss base salary adjustments for 2013, the setting of Company performance and related annual bonus for 2012, amendments to the annual bonus scheme, and approval of share awards.

Advisers to the Remuneration Committee

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions in the Company as a whole. These individuals include:

- the Chairman (Dr. James Buckee) is not a member but attends by invitation;
- the Chief Executive (Amjad Bseisu);
- the Chief Financial Officer (Jonathan Swinney);
- the HR Director (Graeme Cook);
- a representative of New Bridge Street (part of Aon plc), appointed as remuneration advisor by the Committee in 2013; and
- the Company Secretary acts as secretary to the Committee (Stefan Ricketts/Paul Waters).

No Director takes part in any decision directly affecting his or her own remuneration.

Committee members, attendees and advice

Remuneration Committee member	Position	Comments
Helmut Langanger	Chairman of the Remuneration Committee	Independent
Jock Lennox	Member from 22 February 2010	Independent
Clare Spottiswoode	Member from 1 July 2011	Independent
Phil Nolan	Member from 1 August 2012	Independent

POLICY SECTION

This section sets out the principles behind our remuneration policies and the remuneration structure for the Executive Directors. During 2013, we clarified our principles and we believe that our remuneration structure continues to be aligned with our growth aspirations and the creation of shareholder value.

Remuneration principles

During 2013, we reviewed our overall remuneration principles to ensure that they were aligned to our strategy. EnQuest's strategic objective is to achieve sustainable growth by focusing on exploiting its existing reserves, commercialising and developing discoveries, converting contingent resources into reserves, and pursuing selective acquisitions.

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

In summary, the principles underpinning our remuneration policy are that remuneration for Executive Directors should be:

1. Aligned with shareholders.
2. Fair, reflective of best practice, and market competitive.
3. Comprise of fixed pay set below the median, and variable pay capable of delivering remuneration at upper quartile.
4. Reward performance with a balance of short-term and long-term elements.

Executive Directors

General approach

The remuneration of the Executive Directors comprises base salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares), the PSP, private medical insurance, and cash in lieu of pension and other benefits.

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

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

The following table details EnQuest's remuneration policy which will become binding from 29 May 2014; subject to approval at the 2014 AGM:

Component	Purpose	Operation / key-features	What is the maximum potential opportunity?	Applicable performance measures
Salary and fees	To enable the recruitment and retention of Executive Directors who possess the appropriate experience, knowledge, commercial acumen and capabilities required to deliver sustained long-term shareholder value.	▸ Benchmarked against a comparator group generally of the same size and industry as EnQuest and who have a similar level of market capitalisation. ▸ Salaries are typically below market median, and reviewed by the Remuneration Committee in January each year.	Salaries are typically only increased in line with the general workforce. Increases in excess of the general workforce may be made where there is a significant change in duties, contribution to Company performance, personal performance, external market conditions. Typically, the conditions and pay of all employees within the Company are factors considered by the Committee in its review.	None
Pension & other benefits	Provide market competitive employee benefits that are in line with the marketplace and enable EnQuest to attract and retain high calibre employees, as well as providing tax efficient provision for retirement income.	▸ Delivered as cash in lieu of benefits and pension, with the exception of private medical insurance which is provided as a benefit in kind. ▸ Reviewed annually by the Remuneration Committee and adjusted to meet typical market conditions. ▸ Where required, we would offer benefits in line with local additional market practice.	The maximum allowance that would be offered is £50,000 plus private medical insurance, the cost of which is determined by a third-party provider.	None
Annual bonus	Incentivises and rewards short term performance (over no more than one financial year) through the achievement of pre-determined annual targets which support Company strategy and shareholder value.	▸ Two-thirds paid as cash with the final third being delivered as shares which vest after two years, subject to continued employment. ▸ The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on deferred shares at the time of vesting.	▸ Target – 100% of salary. ▸ Maximum award – increased from 200% of salary to 225% of salary from 1 January 2014. ▸ The bonus element delivered as deferred shares has no additional performance criteria and vests after two years.	Using a scorecard approach, including key performance objectives such as financial, operational, project delivery, HSE&A targets and share price performance. These are set annually by the Remuneration Committee, with varying weightings. Performance against key objectives have a threshold, target and stretch component. Where the threshold level of performance is met for each element, bonuses will begin to accrue on a sliding scale from 0%.

Component	Purpose	Operation / key-features	What is the maximum potential opportunity?	Applicable performance measures
Performance Share Plan ('PSP')	‣ Encourages alignment with shareholders on the longer-term strategy of the Company. ‣ Enhances delivery of shareholder returns by encouraging higher levels of Company performance. ‣ Encourages executives to build a shareholding.	‣ PSP is the only form of long-term incentive. ‣ Annual award levels are determined taking account of the performance of the Company and the Executive Director in the prior year. ‣ PSP shares vest over three years provided corporate performance conditions have been achieved. ‣ The Committee has discretion to allow Executive Directors to receive dividends that would otherwise have been paid on shares at the time of vesting. ‣ Awards may take the form of conditional awards, nil cost options or joint interests in shares. Where joint interests in shares are awarded, the participants and the Employment Benefit Trust ('EBT') acquire separate beneficial interests in shares in the Company.	**2014** ‣ Normal maximum – 200% of salary. ‣ Exceptional maximum – 300% of salary. ‣ 2015 onwards (subject to shareholder approval for changes to the PSP at the 2015 AGM). Maximum award – 300% of salary.	The metrics used currently are: ‣ Relative TSR performance. ‣ Production growth per share. ‣ Reserves growth per share. ‣ For 2014, each measure has an equal weighting, however, the Remuneration Committee determines the weightings for the PSP each year. ‣ 30% of the award vests for threshold performance. ‣ 100% vests for achievement of stretch targets.
Restricted Share Plan ('RSP')	‣ Awarded upon Initial Public Offering ('IPO') only. ‣ The Committee does not intend on granting further awards under this plan to existing Executive Directors, but may use on recruitment to buy out existing awards.	‣ Granted upon IPO, with shares due to vest on the second, third and fourth anniversaries of the date of the award. ‣ In future, the plan would only be used in the recruitment of an Executive Director to buy out entitlements foregone at previous employer.	‣ Awards of 1,609,063 and 591,324 shares were made to Amjad Bseisu upon IPO in 2010. Awards of 536,354 and 163,387 shares were made to Jonathan Swinney upon IPO in 2010. The maximum limit of RSP awards that would be made at the time of recruitment would be 300% of base salary.	There are no performance conditions, save continued employment, attached to these awards.

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Component	Purpose	Operation / key-features	What is the maximum potential opportunity?	Applicable performance measures
Chairman and Non-Executive Director fees	To attract Non-Executive Directors of the calibre and experience required for a company of EnQuest's size.	▸ Fees for the Non-Executive Directors are reviewed annually by the Chairman and Executive Directors and take into account: – typical practice at other companies of a similar size and complexity to EnQuest; – the time commitment required to fulfil the role; and – salary increases awarded to employees throughout the Company. ▸ Non-Executive Directors are paid a base fee, with additional fees being paid to the Senior Independent Director and Committee Chairmen, to reflect the additional time commitments and responsibilities these roles entail. ▸ The Non-Executive Directors are not eligible to participate in any of the Company incentive schemes. ▸ The Chairman's fee is set by the Senior Independent Director and consists of an all-inclusive fee.	Limited by the Company's Articles of Association. Non-Executive Director fees have not increased since the Company was formed in 2010 and have been reviewed in the year. These will be set as follows for the following three years: Chairman: £220,000 Director fee: £50,000 Senior Independent Director: £10,000 Committee Chairmen: £10,000	None

Note: Any awards vesting under the annual bonus or PSP will be subject to clawback in the event of a material misstatement of the Company's accounts, errors in the calculation of performance, or gross misconduct by an individual for up to three years following the determination of performance.

Shareholding requirement

The Executive Directors are encouraged to build and maintain a shareholding in the Company, however there are no formal guidelines in place. This shareholding is encouraged through the vesting of shares under the Group's share incentive plans. Existing shareholdings and shares acquired in the market are also taken into account.

Performance measures and targets

Annual bonus

The annual bonus scheme is a weighted scorecard of key performance indicators with a number of categories, under which the performance of the Company, and therefore the Executive Directors annual bonus is determined. The categories that form the scorecard may include, but are not limited to:

- Health, Safety, Environment and Assurance;
- financial (including EBITDA, opex and capex);
- operational performance/production;
- project delivery;
- reserves additions; and
- share price performance.

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

For Jonathan Swinney and other senior executives below Board level, the result against the corporate scorecard is subject to an individual performance modifier. This ensures no bonus can be paid for individual performance unless corporate objectives have been achieved whilst ensuring bonuses are also geared to individual performance.

For Amjad Bseisu, the 2014 individual performance element will be based on the corporate scorecard. This will increase the sensitivity of his bonus to corporate performance.

Executive Directors will receive any applicable annual bonus in cash and deferred shares. Typically, two-thirds of the applicable annual bonus will be distributed in cash around the time of the announcement of full year results, with one third being converted to EnQuest shares (without further performance conditions) and deferred for two years – subject to continued employment.

PSP

The PSP is typically awarded annually and has a vesting period of three years. Performance conditions are attached to the awards and have reflected the longer-term strategy of EnQuest since the Company formed in April 2010; namely:

- TSR relative to a comparator group;
- Production growth per share; and
- 2P (Proven & Probable) Reserve additions per share.

In addition, in determining individual awards to Executive Directors, the Committee takes account of Company and individual performance in the year prior to grant. This results in award levels for individual Directors varying from year to year increasing the link to performance.

Approach to recruitment remuneration

In the event that the Company appoints a new Executive Director either internally or externally, when determining appropriate remuneration arrangements, the Committee will take into consideration a number of factors (including, but not limited to, quantum relating to prior arrangements and the remuneration of other Executive Directors in the Company, appropriate benchmarks in the industry and the financial condition of the Company). This ensures that the arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre.

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

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

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

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

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

On the appointment of a new Chairman or Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual.

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Service contracts

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

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

The Chairman and Non-Executive Directors have letters of appointment providing for three months' notice, the details of which are provided below.

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

Policy on payment for loss of office

The Company's policy is for all Executive Directors to have contracts of service which can be terminated by either the Director concerned or the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to loss of basic salary and cash benefit allowance for the notice period. Such payments may be made monthly and would be subject to mitigation. 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. Vesting would normally take place at the end of the original vesting period.

Where Executive Directors leave the Company with good leaver status, and they have an entitlement to unvested shares granted under the PSP, the performance conditions associated with each award outstanding would remain in place and are typically tested at the end of the original performance period. Shares would typically then vest on their original due date in the proportion to the satisfied performance conditions and are normally pro-rated for time.

Annual bonus would not typically be paid to Executive Directors when leaving the Company; however, in good leaver circumstances the Committee has the discretion to pay a pro-rated bonus in cash, in consideration for performance targets achieved in the year. Deferred bonus shares held by good leavers may, at the Committee's discretion, vest on a pro-rata basis.

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

Remuneration Committee discretion and determinations

The Committee will operate the annual bonus scheme, Deferred Bonus Share Plan, Long-Term Incentive Plan, Restricted Share Plan and Sharesave Scheme according to their respective rules and in accordance with the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these arrangements. These include (but are not limited to) the following:

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

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

Outstanding share incentive awards that remain unvested or unexercised at the date of this report, as set out on page 70, remain eligible for vesting or exercise based on their original award terms.

Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the remuneration arrangements for 2014 in line with the remuneration policy described on pages 59 to 66. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

Three scenarios have been illustrated for each Executive Director:

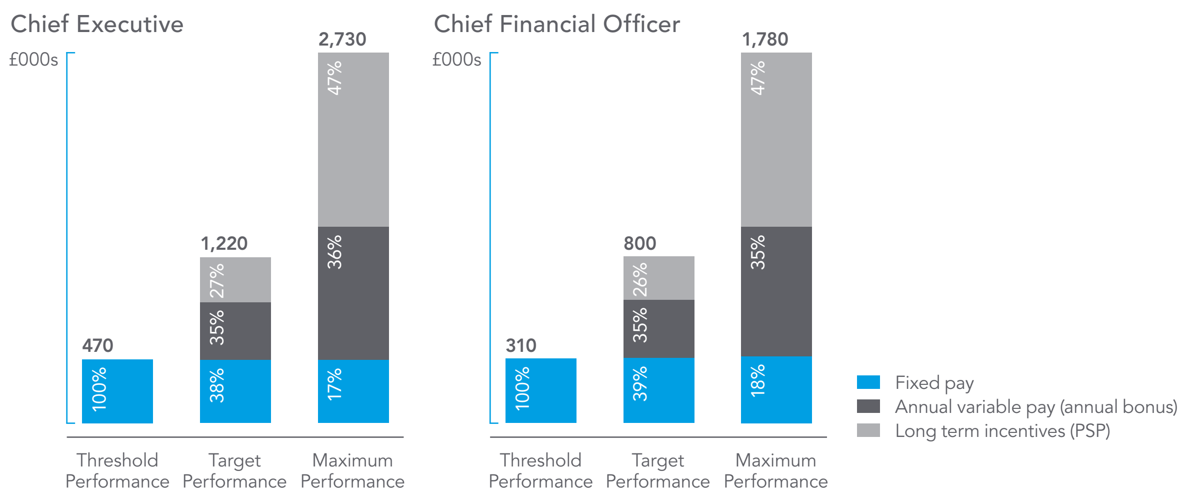
Below threshold performance	‣ Fixed remuneration ‣ Zero annual bonus ‣ No vesting under the annual bonus plan
Target performance	‣ Fixed remuneration ‣ 100% of annual base salary as annual bonus ‣ 30% vesting under the PSP
Maximum performance	‣ Fixed remuneration ‣ 225% of annual base salary as annual bonus ‣ 100% vesting under the PSP

Fixed pay for 2014 will comprise the following elements:

	Salary	Cash in lieu of pension	Benefits
Chief Executive – Amjad Bseisu	£430,000	£40,000	£1,500
Chief Financial Officer – Jonathan Swinney	£280,000	£30,000	£1,500

- Salary is the base salary with effect from 1 January 2014 to 31 December 2014.
- Cash in lieu of pension is as described in the emoluments table.
- Benefits relates to the premium for private medical insurance for each Director.

The scenarios below do not take into account share price appreciation or dividends.



Note: Fixed pay includes salary and taxable benefit values.

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Statement of consideration of employment conditions elsewhere in the Company

The remuneration arrangements for the Executive Directors are consistent with the remuneration principles that have been established and are similar to those of the other employees of EnQuest.

The key differences are as follows:

- Executive Directors and members of the Executive Committee have their fixed pay set below market median for the industry (currently around lower quartile for the Executive Directors). Other employees typically have their salaries positioned at, or above, market median. Specific groups of key technical employees may have their salaries set in the upper quartile of the industry.
- All employees are offered a non-contributory pension scheme. Executive Directors are given cash in lieu of pension and benefits. Non-Executive Directors do not participate in pension or benefits arrangements.
- Executive Directors have an element of the annual bonus converted to shares and deferred. Non-Executive Directors do not participate in the annual bonus scheme.
- Employees may elect to participate in the Deferred Bonus Share Plan ('DBSP') where they can defer a defined proportion of their annual bonus and receive a matching amount of shares that vest over the following three years. Executive and Non-Executive Directors do not participate in this share plan.
- Executive Directors and other employees may participate in the HMRC approved Sharesave Scheme and benefit from share price growth. Non-Executive Directors may not participate.

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

Employees have not previously been directly consulted about the setting of Directors' pay.

Statement of shareholder views

The Remuneration Committee welcomes and values the opinions of our shareholders with regard to the levels of Directors' pay. The 2012 Directors' Remuneration Report was voted in at the AGM held in May 2013, where 98% of the votes cast were in favour of it. No concerns have been raised by shareholders to the Remuneration Committee during 2013.

IMPLEMENTATION OF REMUNERATION POLICY IN 2013 (INFORMATION SUBJECT TO AUDIT)

Directors' remuneration: the 'single figure'

In this section of the report we have set out the payments made to the Executive and Non-Executive Directors of EnQuest during 2013 and 2012 and it includes a single total figure for each Director:

	2013 'single figure' of remuneration – £000s					
Director	Salary and fees 2013	All taxable benefits 2013	Annual bonus 2013[1]	LTIP 2013[2]	Pension 2013[3]	Total for 2013
Amjad Bseisu	410	1	410	495	40	1,356
Jonathan Swinney	264	1	267	276	30	838
Total	**674**	**2**	**677**	**771**	**70**	**2,194**

	2012 'single figure' of remuneration – £000s					
Director	Salary and fees 2012	All taxable benefits 2012	Annual bonus 2012[1]	LTIP 2012[2]	Pension 2012[3]	Total for 2012
Amjad Bseisu	395	1	474	–	40	910
Nigel Hares[4]	249	1	200	–	26	476
Jonathan Swinney	255	1	291	–	30	577
Total	**899**	**3**	**965**	**–**	**96**	**1,963**

Notes:
1. Annual bonus was based on base salary levels and payment was made in respect of the full financial year. The amount stated is the full amount (including the portion deferred). One third of the annual bonus for Amjad Bseisu and Jonathan Swinney is paid in EnQuest PLC shares, deferred for two years, and subject to continued employment.
2. No PSP awards vested during 2012 or 2013. PSP awarded on 18 April 2011 vested from 18 April 2014. The LTIP value shown in the 2013 single figure is calculated by taking the number of performance shares that have vested (66.7% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2013 and 31 December 2013, as the share price on this date was not known at the time of this report.
3. Cash in lieu of pension and other benefits.
4. Nigel Hares stepped down from the Board on 9 November 2012. No payment was made for loss of office. 50% of his 2012 annual bonus (£100,000) was paid in April 2013 with the remaining balance of £100,000 deferred until April 2014 payable subject to him continuing to provide consultancy support to the Company in relation to being a strategic advisor to the Chief Executive. He was granted 'good leaver' status in respect of share awards made to him under the Company's share plans. These awards will vest on their original vesting dates and be subject to the same performance conditions as the rest of the Company.

Arrangements for Nigel Hares

Nigel Hares has continued to provide consultancy support as an adviser to the Chief Executive since stepping down from the Board on 9 November 2012. No payment in lieu of notice was made to him for leaving employment of the Company, instead his consultancy arrangements commenced immediately. The total amount of payments made to Nigel Hares in relation to his consultancy services in 2013 was £266,250.

The remuneration of the Non-Executive Directors for the years 2012 and 2013 is made up as follows:

	2013 'single figure' of remuneration – £000s		
Director	Salary and fees 2013[1]	All taxable benefits 2013	Total for 2013
Dr James Buckee	200	–	200
Helmut Langanger	53	–	53
Jock Lennox	53	–	53
Clare Spottiswoode	45	–	45
Alexandre Schneiter[2]	–	–	–
Phil Nolan[3]	45	–	45
Total	**396**	**–**	**396**

	2012 'single figure' of remuneration – £000s		
Director	Salary and fees 2012	All taxable benefits 2012	Total for 2012
Dr James Buckee	200	–	200
Helmut Langanger	53	–	53
Jock Lennox	53	–	53
Clare Spottiswoode	45	–	45
Alexandre Schneiter[2]	19	–	19
Phil Nolan[3]	19	–	19
Total	**389**	**–**	**389**

Notes:
1. There was no increase in Non-Executive Director fees once again for 2013.
2. Alexandre Schneiter stood down as a Non-Executive Director at the 2012 AGM on 30 May 2012.
3. Phil Nolan was appointed as a Non-Executive Director on 1 August 2012.

Annual bonus

The Executive Directors' annual bonus for 2013 was based 100% on the Company performance contract for Amjad Bseisu and 80% for Jonathan Swinney. The remaining 20% of Jonathan Swinney's annual bonus depended upon him achieving a number of strategic and functional objectives.

The Committee carefully assessed the achievement of objectives against the Company performance contract, and Jonathan Swinney's individual performance contract, to determine the overall level of annual bonus for each Executive Director.

The Committee assessed the following levels of performance by the Company for 2013:

EnQuest Company performance contract	Weighting	Level of performance
HSE&A Basket of leading & lagging HSE&A indicators	10%	Target
Financial EBITDA, opex, capex & launch of Retail Bond	15%	Target
Operational performance Production and 2P reserves additions	15%	Above target
Project delivery Alma/Galia start-up, Kraken sanction, Heather drilling & Thistle power	20%	Below target
Corporate & business development UKCS & international corporate & asset transactions	20%	Target
People & organisation Launch of people & organisation strategy & executive succession planning	10%	Target
Share price performance Absolute & relative share price growth	10%	Target

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Jonathan Swinney individual performance contract	Weighting	Level of performance
HSE&A HSE&A reporting	5%	Target
Financial Manage Group overheads, audit, investor relations, tax	30%	Target
Strategic development Retail Bond, property, ERP implementation	20%	Above target
People & organisation Finance team, treasury & audit functions	20%	Target
External relations Enhancement of investor holdings	10%	Target
Cost & value management Cost reduction programme	15%	Target

Note to tables: Precise targets are commercially sensitive and are not being disclosed at this time.

As such, a Company performance of 'Target' was achieved by the Company, and an individual performance marginally above this by Jonathan Swinney. This resulted in the following annual bonus levels being achieved:

Name	Annual bonus for 2013	% of base salary	% of maximum
Amjad Bseisu	£410,000	100%	50%
Jonathan Swinney	£267,000	101%	50.1%

Two-thirds of the amounts above have been paid in cash in March 2014. The remaining one-third was converted to EnQuest shares on the date of the award and deferred until March 2016. There are no additional performance conditions attached to this deferral as they have already been met.

PSP

The performance period for the 2011 PSP award completed on 31 December 2013 and the award vested in April 2014. The results of the performance conditions for the 2011 PSP award are as follows:

			Performance conditions & weighting			
Grant date	Vesting date	Performance period	EnQuest TSR	Production	Reserves	Total award
19 Apr 2011	19 Apr 2014	1 Jan 2011 – 31 Dec 2013	33.34%	33.33%	33.33%	100%
Base level			–	21,074 Boepd	88.5 MMboe	
Threshold			Median (18th position)	24,418 Boepd	97.4 MMboe	
Maximum			Upper quartile (9th position)	28,049 Boepd	132.8 MMboe	
Actual performance achieved			Above upper quartile (7th position)	24,222 Boepd	194.8 MMboe	
Percentage meeting performance conditions & total vest			100%	0%	100%	**66.67%**

The table below shows the number of nil cost options that vested and their value at 31 December 2013. This figure is calculated taking the average closing share price on each day of the period 1 October 2013 – 31 December 2013 and is used as the basis for reporting the 2013 'single figure' of remuneration.

Name	No. of shares	Portion vesting	No. of shares vesting	Average share price	Value at 31 Dec 2013 £'000s
Amjad Bseisu	583,090		388,727		495
Jonathan Swinney	324,975	66.67%	216,550	£1.273	276
Nigel Hares[1]	443,148		295,432		376

Note:
1. Nigel Hares ceased to be an Executive Director on 9 November 2012; however he was granted 'good leaver' status and his PSP award will vest from 19 April 2014.

2013 PSP Awards

After due consideration of business performance in 2012, the Remuneration Committee awarded the Executive Directors the following performance shares on 19 April 2013.

	Face value (% of salary)	Face value as at 31 Dec 2013[1]	No. of Shares	Percentage of base salary	Performance period
Amjad Bseisu	160%	£622,447	490,000	152%	1 Jan 2013 –
Jonathan Swinney	152%	£381,090	300,000	144%	31 Dec 2015

Note:
1. The share price used for this calculation was £1.2703 (the average share price during 1st October to 31st December 2013).

Summary of performance measures and targets

The 2010 PSP share awards granted in April 2013 had three sets of performance conditions associated with them, over a three year financial performance period:

- One-third of the award relates to TSR against a comparator group of 33 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX.
- One-third relates to production growth per share.
- One-third relates to reserves growth per share.

PSP vesting schedule

	Relative TSR		Production growth per share (average over three years)		Reserves growth per share	
	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 5% growth from base	0%	Less than 100% of base	0%
Threshold	Median	30%	5% growth from base	30%	110% of base	30%
Target	–	–	–	–	125% of base	65%
Maximum	Upper quartile	100%	10% growth from base	100%	150% of base	100%

Performance target base levels

Year of grant	Production growth per share base level	Reserves growth per share base level
2011	21,074 Boepd	88.5 MMboe
2012	23,698 Boepd	115.2 MMboe
2013	22,802 Boepd	128.5 MMboe

The comparator group companies for the TSR performance condition relating to the 2013 PSP award are as follows:

FTSE 350	FTSE AIM - Top 100	Stockholm NASDAQ OMX
Afren	Amerisur Resources	Alliance Oil
Cairn Energy	Bowleven	Blackpearl Resources
Essar Energy	Circle Oil	Lundin Petroleum
Heritage Oil	Coastal Energy	PA Resources
Ophir Energy	Eland Oil & Gas	Shelton Petroleum
Premier Oil	Falkland Oil & Gas	
Salamander Energy	Faroe Petroleum	
Soco International	Geopark Holdings	
Tullow Oil	Gulf Keystone Petroleum	
	Igas Energy	
	Indus Gas	
	Ithaca Energy	
	Maple Energy	
	Petroceltic International	
	Providence Resources	
	Range Resources	
	Rockhopper Exploration	
	Valiant Petroleum	
	Xcite Energy	

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

The number of PSP awards outstanding as at 31 December 2013 are as follows:

	No. of shares awarded	Performance period	Performance conditions (& weighting)	Vesting date
Grant date – April 2011			TSR (34%)	
Amjad Bseisu	583,090	1 Jan 2011 – 31 Dec 2013	Production growth (33%)	19 April 2014
Jonathan Swinney	324,975		Reserves additions (33%)	
Grant date – April 2012			TSR (34%)	
Amjad Bseisu	391,701	1 Jan 2012 – 31 Dec 2014	Production growth (33%)	19 April 2015
Jonathan Swinney	254,663		Reserves additions (33%)	
Grant date April – 2013			TSR (34%)	
Amjad Bseisu	490,000	1 Jan 2013 – 31 Dec 2015	Production growth (33%)	29 April 2016
Jonathan Swinney	300,000		Reserves additions (33%)	

Pension and benefits

Executive Directors do not participate in the EnQuest Pension Plan and instead receive cash in lieu. Amjad Bseisu receives an annual allowance of £40,000 and Jonathan Swinney an amount of £30,000.

The Committee determined that these allowances should not be increased for 2014.

Statement of Directors' shareholding and share interests

The interests of the Directors in the share capital of the Company as at 31 December 2013 are shown below:

RSP	31 December 2012	Granted	Vested	Lapsed	31 December 2013	Vesting period	Expiry date
Amjad Bseisu	1,206,797	–	402,266	–	804,531	1 Apr 2012 – 1 Apr 2014	31 Mar 2020
	443,493	–	147,831	–	295,662	19 Apr 2012 – 19 Apr 2014	18 April 2020
Jonathan Swinney	402,265	–	134,089	–	268,176	1 Apr 2012 – 1 Apr 2014	31 March 2020
	122,540	–	40,847	–	81,693	19 Apr 2012 – 19 Apr 2014	18 April 2020

Notes:
1. Nil cost shares under the RSP vested in April 2012 and April 2013 but were not exercised. They were rolled over in line with the Plan rules.
2. Nigel Hares continues to hold 1,072,709 nil cost awards under the RSP which vest between 1 April 2011 and 31 March 2020. Out of these shares 268,177 nil cost awards vested in April 2011, 201,133 nil cost awards vested in April 2012, and 201,133 nil cost options vested in April 2013. They were rolled over in line with the Plan rules.

PSP	31 December 2012	Granted	Vested	Lapsed	31 December 2013	Vesting period	Expiry date
Amjad Bseisu	583,090	–	–	–	583,090	19 Apr 2011 – 19 Apr 2014	18 April 2021
	391,790	–	–	–	391,790	19 Apr 2012 – 19 Apr 2015	18 April 2022
	–	490,000	–	–	490,000	29 Apr 2013 – 29 Apr 2016	28 April 2023
Jonathan Swinney	324,975	–	–	–	324,975	1 Apr 2012 – 1 Apr 2014	18 April 2021
	254,663	–	–	–	254,663	19 Apr 2012 – 19 Apr 2014	18 April 2022
	–	300,000	–	–	300,000	29 Apr 2013 – 29 Apr 2016	28 April 2023

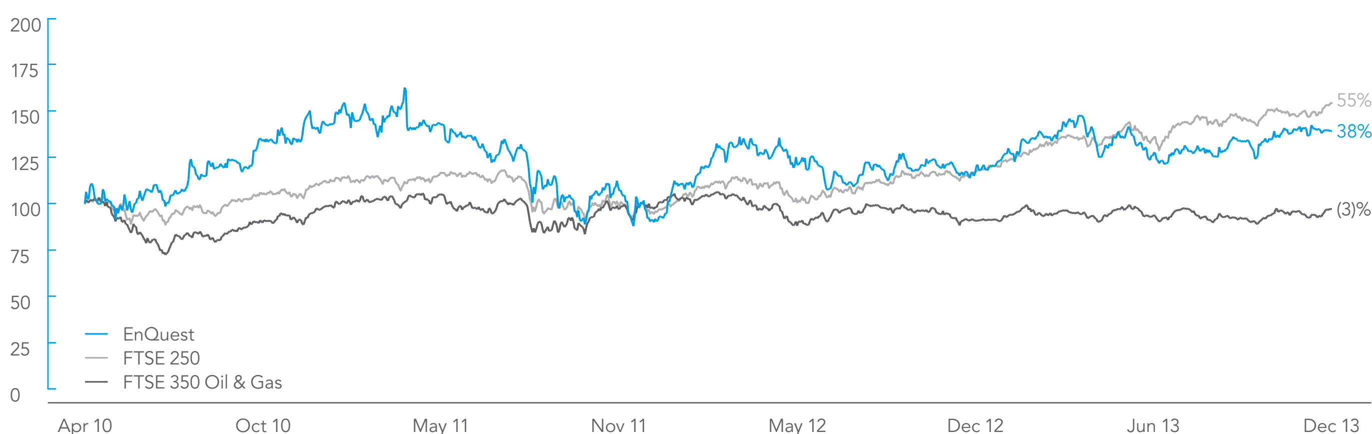
Note:
1. Nigel Hares continues to hold 760,312 nil cost awards under the PSP. 443,148 nil cost awards were granted on 19 April 2011 and 317,164 nil cost awards were granted on 19 April 2012.

The table above shows the maximum number of shares that could be released if awards were to vest in full. These awards first vest on the third anniversary of the award date, subject to the achievement of performance conditions (as described on page 68.

	Legally owned (number of shares)	Value of legally owned shares as % of salary	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the RSP	Unvested under the RSP	Sharesave	Total at 31 Dec 2013
Amjad Bseisu	70,797,182	22,000%	1,464,880	1.100.193	1,100,194	–	74,462,449
Jonathan Swinney	62,033	29%	879,638	349,870	349,871	9,000	1,650,412
Dr James Buckee	1,222,327	–	–	–	708,440	–	1,930,767
Helmut Langanger	–	–	–	–	–	–	–
Jock Lennox	20,000	–	–	–	–	–	20,000
Clare Spottiswoode	–	–	–	–	–	–	–
Phil Nolan	–	–	–	–	–	–	–

Total shareholder return and CEO total remuneration (Information not subject to audit)

The following graph shows the Company's performance, measured by total shareholder return compared with the performance of the FTSE 250 Index and FTSE 350 Oil and Gas Index, also measured by total shareholder return. The FTSE 250 Index and FTSE 350 Oil and Gas Index has been selected for this comparison as it is the index used by the Company for the performance criterion for the 2010 PSP.



Note: Rebased to 100

Historical Chief Executive pay

The table below sets out details of the Chief Executive's pay for the current year and the previous four years and the payout of incentive awards as a proportion of the maximum opportunity for each period. The Chief Executive's pay is calculated as per the 'single figure' of remuneration as shown on page 66.

During this time, Amjad Bseisu's total remuneration has been:

	£'000s				
	2009	2010	2011	2012	**2013**
'Single figure' of total remuneration	–	3,004	731	910	**1,356**
Annual bonus as a % of maximum	–	80%	42%	60%	**50%**
Long-term Incentive vesting rate as a % of maximum RSP	–	–	–	–	**67%**

Notes:
1. Company was formed on 5th April 2010. No data available for 2009 and 2010 was a partial year.
2. 2010 'Single Figure' includes the value of RSP awards made at the time of IPO which will vest, subject to continued employment on the 2nd, 3rd and 4th anniversaries of grant.

Relative spend on pay

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

Relative spend on pay	2012 US$'000	2013 US$'000
EBITDA	634.6	621.3
Distribution to shareholders	0	0
Total employee pay	76,861	108,226

How the Chief Executive's pay relates to the workforce

	Base Salary £'000			Bonus £'000			Benefits £'000		
	2012	2013	%	2012	2013	%	2012	2013	%
Amjad Bseisu	395	410	3.8	474	410	-14%	41	41	0%
All employees (average)	78	85	9	25	24	-4%	10	11	10%

The profile of the workforce has changed considerably during this period with 249 employees as at 31 December 2013 versus 210 employees as at 31 December 2012. The average base salary increase for employees on a like-for-like basis in the period under review was 4.2%. The number of 9% shown above reflects both the increase in base salaries and the change due to recruitment activity.

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Statement of implementation of remuneration policy in 2014

Base salary and 2013 pay review

As stated in the annual statement to this report, the remuneration for the Executive Directors is geared towards variable pay, with base salaries currently set around the lower quartile benchmark for the oil and gas industry and comparable sized companies. In the view of the Committee it is therefore important to ensure that the base salaries of the Executive Directors are reviewed annually and that any increase reflects the change in scale and complexity of the role as the Company grows as well as the performance of the Executive Director.

The table below shows the change to salaries for 2014:

Name	Salary for 2013	Salary for 2014	% increase
Amjad Bseisu	£410,000	£430,000	4.9%
Jonathan Swinney	£264,000	£280,000	6.4%

Salaries for both Amjad Bseisu and Jonathan Swinney were increased to reflect the continuing growth and performance of EnQuest and the performance of the executives in the role. The increases for both Executive Directors continues to position their base salaries around the lower quartile range of their peers.

Annual bonus

The annual bonus scheme for 2014 will be amended as follows:

- Executive Directors (and other executive management) will have threshold, target, and stretch levels of performance objectives attributed to key performance objectives.
- Amjad Bseisu's bonus will be determined solely by the performance of the Company. Jonathan Swinney's will include a modifier based upon individual performance.
- Maximum levels of award for the Executive Directors will increase from 200% to 225% of annual base salary applicable in the year of performance.
- More stretching targets will apply at maximum to take account of this increase.

The 2014 targets, weightings and measures, which will affect the level of short-term incentive awards for the Directors are set out below:

Company 2014 performance measures scorecard

Category	Weighting
Financial targets	15%
Production	25%
Reserves	10%
Alma/Galia	20%
Kraken	20%
EnQuest share price performance	10%

Notes:
1. Precise targets are commercially sensitive and are not being disclosed at this time.
2. Performance in Health, Safety, Environment and Assurance is central to EnQuest's overall results. This category is used as an overlay on overall Company performance.
3. Amjad Bseisu's 2014 performance measures scorecard will be the same as the corporate scorecard.

Jonathan Swinney 2014 performance measures scorecard	Weighting
Health, Safety, Environment and Assurance	5%
Financial	30%
Strategic development	20%
Organisation	20%
External relations	10%
Cost and value management	15%

The choice of performance targets for 2014, and their respective weightings, reflects the Committee's belief that any short-term annual bonus should be tied both to the overall performance of the Company and the individual's performance. The annual bonus model used for the Executive Directors, and all employees in the Company, is shown below.

		Company			Individual	
		Performance level	Multiplier		Individual performance	Multiplier
		Stretch performance	1.2–1.5		Exceed target	1.2–1.5
Target annual bonus	X	On-target performance	0.8–1.2	X	On target	0.8–1.2
		Below-target performance	0.0–0.8		Below target	0.0–0.8

Performance share awards

2014 PSP awards

After due consideration of business performance in 2013, the continued growth of EnQuest, and performance of the Executive Directors, as well as other factors, the Remuneration Committee decided to award grants equal to 200% of salary for Amjad Bseisu and 182% of salary to Jonathan Swinney. These awards will be granted in late April 2014.

Summary of performance measures and targets

The PSP share awards granted in April 2014 had three sets of performance conditions associated with them over a three year financial period:

- One-third of the award relates to TSR against a comparator group of 27 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX.
- One-third relates to production growth per share.
- One-third relates to reserves growth per share.

PSP vesting schedule

	Relative TSR		Production growth per share (average over three years)		Reserves growth per share	
	Performance	Vesting	Performance	Vesting	Performance	Vesting
Threshold	Below median	0%	Less than 5% growth from base	0%	Less than 100% of base	0%
	Median	30%	5% growth from base	30%	105% of base	30%
Target	–	–	–	–	110% of base	65%
Maximum	Upper quartile	100%	10% growth from base	100%	115% of base	100%

Performance target base levels

Year of grant	Production growth per share base level	Reserves growth per share base level
2014 proposed	24,222 Boepd	194.8 MMboe

TSR comparator group

FTSE 350	FTSE AIM - Top 100	Stockholm NASDAQ OMX
Afren	Amerisur Resources	Blackpearl Resources
Cairn Energy	Bowleven	Lundin Petroleum
Essar Energy	Eland Oil & Gas	PA Resources
Ophir Energy	Faroe Petroleum	Shelton Petroleum
Premier Oil	Gulf Keystone Petroleum	Tethys Oil
Soco International	Igas Energy	
Tullow Oil	Iofina	
	Ithaca Energy	
	Lekoil	
	Parkmead Group	
	Petroceltic International	
	Providence Resources	
	Quadrise Fuels	
	Rockhopper Exploration	
	Xcite Energy	

DIRECTORS' REMUNERATION REPORT 2013 CONTINUED

Consideration by the Directors of matters relating to Directors' remuneration

During 2013 New Bridge Street (part of Aon plc) were appointed as advisors to the Remuneration Committee to provide guidance on appropriate types and levels of award for the Directors. New Bridge Street was selected by the Chairman of the Remuneration Committee on the basis of previous experience and marketplace reputation.

The Committee satisfied itself that the advice given was objective and independent by reviewing it against other companies in EnQuest's comparator group. New Bridge Street is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest. New Bridge Street does not provide any other services to the Company. The fees paid to New Bridge Street totalled £10,029 (excluding VAT) and were charged on the basis of the number of hours worked.

Statement of voting at the Annual General Meeting

The table below summarises the voting at the AGM held on 29 May 2013. The Group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

The following table sets out the actual voting in respect of the approval of the Remuneration Report:

Number of votes cast for	Percentage of votes for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
464,131,741	98.11	8,928,831	1.89	473,060,572	10,098,645

Helmut Langanger
Chairman of the Remuneration Committee
25 March 2014

NOMINATION COMMITTEE REPORT

Dear Shareholder

The work of the Nomination Committee in the past year has been focused on maintaining a balance of experienced Directors on the Board who can successfully manage EnQuest's growth strategy. This year no changes were made to its membership. Our focus has been on Board evaluation, succession planning for the Executive Committee, and the adoption of a new Board delegation of authority; the latter of which establishes a revised framework for the approval of financial levels throughout the Group.

Dr James Buckee
Chairman of the Nomination Committee
25 March 2014

Nomination Committee membership

The Nomination Committee currently comprises the Chairman, four independent Non-Executive Directors and, to ensure input from the executives, the Chief Executive. The membership of the Nomination Committee, together with appointment dates and attendance at meetings, is set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
James Buckee (Chairman)	22 February 2010	1/1
Amjad Bseisu	22 February 2010	1/1
Clare Spottiswoode	1 July 2011	1/1
Helmut Langanger	16 March 2010	1/1
Jock Lennox	22 February 2010	1/1
Phil Nolan	1 August 2012	0/1

Role of the Nomination Committee

The role of the Nomination Committee is summarised below and detailed in full in its terms of reference, a copy of which is available on the Company's website www.enquest.com under investors/shareholder centre. The main responsibilities of the Committee are to:

- review the size, structure and composition of the Board in order to recommend changes to the Board and to ensure the orderly succession of Directors;
- formalise succession planning and the process for new Director appointments;
- identify, evaluate and recommend candidates for appointment as Directors taking into account the balance of knowledge, skills and experience required to serve the Board; and
- keep under review the outside directorships and time commitments expected from the Non-Executive Directors.

The Nomination Committee met once in 2013 and conducted a strategic review of EnQuest's organisational model, as well as monitoring the succession considerations for its senior management.

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.

NOMINATION COMMITTEE REPORT CONTINUED

Appointment of Directors
There is a formal, rigorous and transparent procedure for appointments of new Directors to the Board. We use external consultancy services, which have no connection with the Company, in order to facilitate appointments and the Committee thoroughly reviews each candidate in terms of the balance of skills, knowledge and level of independence they would bring to the Board. The Committee also gives careful consideration to other existing commitments a candidate may have and whether they will be able to devote the appropriate amount of time in order to fully meet what is expected of them. Once the Committee has identified a suitable candidate a recommendation is made to the Board for appointment.

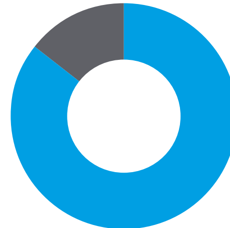
Succession planning
2013 was a year of stability for the Board which allowed the Committee to focus on succession planning. Since the Company is still relatively young, only four years, the length of tenure of each of the Non-Executive Directors is not considered to be long enough to adversely affect their independence. Nevertheless, succession planning for the Non-Executive Directors is an area we consistently keep under review, along with the succession planning of the Executive Directors. As the Company continues to grow both in the UKCS, and internationally, ensuring that the Board and senior management have the right blend of experience and skills and who demonstrate the EnQuest values in all that they do will be central to our success. We will continue to work closely with the Chief Executive and the HR Director to ensure that we are recruiting and developing Board members and executive management with all of these attributes.

Diversity policy
The Board works hard to ensure that it is able to recruit Directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. We believe that diversity amongst Directors contributes towards a high performing, effective Board.

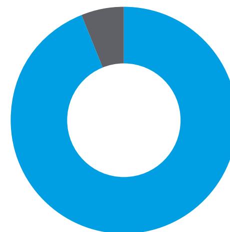
EnQuest recruits where it works and 99% of our workforce is made up of local staff.

Our gender statistics are representative of the demographics of the wider oil and gas industry and are made up as follows:

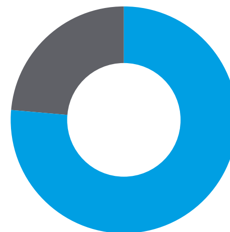
Gender ratios



Directors	%
Male	86%
Female	14%



Senior managers	%
Male	94%
Female	6%



Total employees	%
Male	77%
Female	23%

Re-election to the Board
The effectiveness and commitment of the Non-Executive Directors has been subject to formal evaluation, and the Nomination Committee is satisfied with the time commitment of each Non-Executive Director during the year. We are confident that each of them would be in a position to discharge their duties to the Company in the coming year and continue to bring the necessary skills required to the Board. Detailed biographies for each Director, including their skills and external appointments, can be found on pages 44 and 45. As detailed in the 2014 Notice of AGM, all Directors will stand for re-election.

Conflicts of interest
The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest 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.

DIRECTORS' REPORT

The Directors of EnQuest PLC (registered in England and Wales with Company No. 7140891) present their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2013. These will be laid before shareholders at the AGM to be held on Wednesday 28 May 2014.

Principal activities

The principal activities of the Group are oil and gas development and production with its main focus on the UKCS. EnQuests operated assets include the Thistle, Deveron, Heather, Broom, West Don, Don Southwest, Conrie, Kittiwake, Mallard, Gadwall, Goosander and Grouse producing fields and the Alma/Galia and Kraken developments; EnQuest also has an interest in the non-operated Alba producing oil field. EnQuest had 31 UK production licences at the start of 2014. This increases to 37 production licences with the inclusion of the assets from the acquisition of the Greater Kittiwake Area which completed in Q1 2014 and the Don North East area licence which was offered 'out of round' to EnQuest in Q1 2014; these licences cover 47 blocks or part blocks in the UKCS, 30 of the licences are operated by EnQuest.

EnQuest has begun replicating its existing model in the UKCS by targeting previously underdeveloped assets in a small number of other maturing regions; complementing our operations and utilising our deep skills in the UK North Sea. In which context, EnQuest also has interests in two blocks offshore Sabah, in Malaysia, and an interest in the North West October concession in Egypt. The Group operates through a number of principal subsidiaries which are set out in note 29 of the financial statements on page 121.

Future developments

A summary of the future developments of the Company are provided within the Strategic Report on page 19.

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 Statement on pages 49 to 51.

Results and dividends

The Group's financial statements for the year ended 31 December 2013 are set out on pages 81 to 130.

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 44 and 45. All of the current Directors served throughout the year.

All the Directors will offer themselves for re-election at the AGM on 28 May 2014, 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 2012	At 31 December 2013	25 March 2014
Amjad Bseisu[1]	70,797,182	70,797,182	70,797,182
Dr James Buckee	868,107	1,222,327	1,222,327
Helmut Langanger	0	0	0
Jock Lennox	20,000	0	0
Phil Nolan	0	0	0
Clare Spottiswoode	0	0	0
Jonathan Swinney	62,033	62,033	62,033

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

Directors' indemnity provisions

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

Share capital

The Company's share capital during the year consisted of Ordinary shares of £0.05 each (Ordinary shares). Each Ordinary share carries one vote. There were 802,660,757 Ordinary shares in issue at the end of the year (2012: 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 108. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2013 or up to and including 25 March 2014, being the date of this Directors' Report.

Company share schemes

Between June 2013 and October 2013, the trustees of the Group Employee Benefit Trust (the 'Trust') purchased 3,960,952 Ordinary shares to satisfy future employee share awards. At year end, the Trust held 1.97% of the issued share capital of the Company (2012: 2.85%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

DIRECTORS' REPORT CONTINUED

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 2013	% of issued share capital held at 31 December 2013	Number of Ordinary shares held at 25 March 2014	% of issued share capital held at 25 March 2014
Baillie Gifford & Co	71,370,176	8.89%	72,393,802	9.02%
Amjad Bseisu and family[1]	70,797,182	8.82%	70,797,182	8.82%
Swedbank Robur Asset Management	57,623,383	7.18%	48,238,685	6.01%
Schroders Plc	32,187,192	4.01%	37,262,271	4.64%
Montanaro Investment Managers Limited	34,074.054	4.25%	33,529,059	4.18%
Norges Bank Investment Management	24,897,630	3.10%	24,897,630	3.10%

Note:
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

A summary of the key acquisitions and disposals throughout the year under review, can be found in the Strategic Report on pages 2 and 3.

Annual General Meeting

The Company's AGM will be held at Café Royal Hotel, 68 Regent Street, London W1B 4DY on 28 May 2014. 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 133.

Greenhouse gas ('GHG') emissions

EnQuest has reported on all of the emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the EnQuest consolidated financial statement. EnQuest has used the principles of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), ISO 14064-1 and data gathered to fulfil the requirements under the 'Environmental Reporting Guidelines: Including Mandatory Greenhouse Gas Emissions Reporting Guidance' June 2013.

The Mandatory Carbon Reporting ('MCR') report includes assets which are in the operational control of EnQuest. These are:
- Heather Alpha
- Thistle Alpha
- Northern Producer Floating Production Facility
- Drilling rigs under the control of EnQuest for exploration and appraisal purposes
- All land based offices

All six greenhouse gases are reported as appropriate. It was not possible to determine gas venting emissions with any degree of accuracy for 2013 reporting. For gas venting, an estimate was made based on maximum vent rates in the vent permits in line with Environmental and Emissions Monitoring System reporting. Emission figures with the vented gas excluded are provided in brackets.

Total emissions within operational control

- 516,269 tCO_2e (414,550 tCO_2e)

Intensity ratio

- 44.47 $kgCO_2e$/BOE (35.71 tCO_2e/BOE)

Where BOE = barrel of oil equivalent.

Global GHG emissions data for period 1 January to 31 December 2013

	2013 reporting year (tCO_2e)	% Total emissions
Scope 1 – Natural Gas Combustion	124,355.80	24.09%
Scope 1 – Natural Gas Flare	189,576.26	36.72%
Scope 1 – Turbine Diesel	69,853.03	13.53%
Scope 1 – Engine Diesel	18,263.87	3.54%
Scope 1 – Natural Gas Vent	101,718.38	19.70%
Scope 1 – Refrigerant Losses	24.42	0.00%
Scope 1 – Fugitive	386.35	0.07%
Scope 1 – Drilling Rigs Diesel	11,134.83	2.16%
Scope 1 – Office Refrigerants	0.05	0.00%
Scope 1 – Natural Gas – London Office	22.33	0.00%
Scope 2 – Office Electricity	933.37	0.18%
Total	516,268.69	100.00%
Intensity ratio: $kgCO_2e$/BOE Emissions reported above normalised to per barrel of oil equivalent (gross)	44.47 (35.71)	n/a

EnQuest has a number of financial interests, e.g. joint ventures and joint investments, for which it does not have operational control. Hence, the boundary for emissions within EnQuest's operational control is different to the financial boundary. In line with MCR guidance this is fully disclosed.

EnQuest has voluntarily opted to have the emissions reported within the MCR scope verified to the internationally recognised ISO-14064-1 standard by a UKAS accredited verification body. This increases the robustness of the reported emissions and provides the reader with more confidence in the stated figures. This goes beyond the minimum requirements of the guidance.

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 27 days (2012: 41 days).

Political and charitable donations

The Company made charitable, social and community-related donations totalling US$74,000 during the year (2012: US$48,346). No political donations were made during the year (2012: 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 £155 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 64 of the Remuneration Report for details of compensation which the Directors are entitled to in the event of a change of control.

Important events subsequent to the year end

Events since the balance sheet date are summarised in note 28 to the financial statements on page 120.

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.

DIRECTORS' REPORT CONTINUED

Responsibility statements under the DTR

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

Independent auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, EY, be reappointed. EY has expressed their willingness to continue as auditors. An ordinary resolution to reappoint EY 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 34 to 39 and the notes to the financial statements on pages 89 to 121 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 Strategic Report on pages 1 to 42. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 34 to 39. In addition, note 27 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 194.8 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.

The Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 25 March 2014.

Stefan Ricketts
General Counsel and Company Secretary

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.

Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, the Directors are responsible for establishing arrangements to evaluate whether the information presented in the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, and making a statement to that effect. This statement is set out on page 51 of the Annual Report.

INDEPENDENT AUDITOR'S REPORT 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 2013 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 set out on page 81, 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 2013 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on our overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- the assessment of the carrying value of intangible and tangible assets; and
- the impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected and undetected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be $16.6 million. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality (that is our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely $8.3 million. Our objective in adopting this approach is to ensure that total uncorrected and undetected audit differences in the financial statements as a whole do not exceed our materiality of $16.6 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We used a risk-based approach for determining our audit strategy, ensuring that our audit teams performed consistent procedures and focused on addressing the risks that are relevant to the business. This approach focused our audit effort towards higher risk areas, such as significant management judgements, and on locations that were considered material based upon size, complexity and risk.

Our assessment of audit risk, our evaluation of materiality and our allocation of that materiality determined our Group audit scope. The factors that we considered when assessing the scope of the Group audit and the level of work to be performed at each location included the following: the financial significance and specific risks of the location, the effectiveness of the control environment and monitoring activities, including entity-level controls and recent internal audit findings.

Our Group audit scope focused on the activities in the North Sea, whilst the remaining locations were subject to testing based on our judgement of risk and materiality. The North Sea represents the principal business unit within the Group's reportable segments and accounted for 99% of the Group's total assets and 102% of the Group's profit before tax.

Our response to the risks identified above included the following:

- We challenged management's assessment of impairment triggers and whether or not a formal impairment test was required. Where a formal impairment test was necessary we challenged management's assumptions including specifically the determination of cash generating units, cash flow projections, discount rates, perpetuity rates and sensitivities used. We performed detailed audit procedures on the impairment test model.
- We audited EnQuest's internal process for reserves estimation including the work performed by an external specialist. We assessed the objectivity and competence of both internal and external specialists. We also discussed and challenged the movements in reserves based on other information we became aware of during the performance of our audit. We confirmed that the reserves information has been consistently reflected in impairment testing, DD&A, decommissioning and the assessment of going concern.

Opinion on other matters prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC (REGISTERED NUMBER: 07140891) CONTINUED

Matters on which we are required to report by exception

We have nothing to report in respect of the following:
Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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 80, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matters

We have reported separately on the parent Company financial statements of EnQuest PLC for the year ended 31 December 2013 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
25 March 2014

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 Business performance US$'000	2013 Exceptional items and depletion of fair value uplift (note 4) US$'000	2013 Reported in year US$'000	2012 Business performance US$'000	2012 Exceptional items and depletion of fair value uplift (note 4) US$'000	2012 Reported in year US$'000
Revenue	5(a)	**961,199**	**–**	**961,199**	889,510	–	889,510
Cost of sales	5(b)	**(532,259)**	**(8,509)**	**(540,768)**	(448,186)	(10,251)	(458,437)
Gross profit/(loss)		**428,940**	**(8,509)**	**420,431**	441,324	(10,251)	431,073
Exploration and evaluation expenses	5(c)	**(8,641)**	**–**	**(8,641)**	(23,157)	–	(23,157)
Impairment of investments	4	**–**	**(312)**	**(312)**	–	(4,417)	(4,417)
Impairment of oil and gas assets	4	**–**	**–**	**–**	–	(143,882)	(143,882)
Gain on disposal of property, plant and equipment	4	**–**	**–**	**–**	–	175,929	175,929
General and administration expenses	5(d)	**(25,024)**	**–**	**(25,024)**	(6,650)	–	(6,650)
Other income	5(e)	**–**	**–**	**–**	2,000	–	2,000
Other expenses	5(f)	**(20,452)**	**–**	**(20,452)**	(8,445)	–	(8,445)
Profit/(loss) from operations before tax and finance income/(costs)		**374,823**	**(8,821)**	**366,002**	405,072	17,379	422,451
Finance costs	6	**(46,554)**	**–**	**(46,554)**	(21,211)	–	(21,211)
Finance income	6	**11,487**	**–**	**11,487**	2,161	–	2,161
Profit/(loss) before tax		**339,756**	**(8,821)**	**330,935**	386,022	17,379	403,401
Income tax	7	**(146,607)**	**5,276**	**(141,331)**	(126,357)	85,174	(41,183)
Profit/(loss) for the year attributable to owners of the parent		**193,149**	**(3,545)**	**189,604**	259,665	102,553	362,218
Other comprehensive income for the year, after tax:							
Cash flow hedges: may be reclassified subsequently to profit or loss (net of tax)	21			**46**			2,554
Available for sale financial assets	14			**398**			–
Total comprehensive income for the year, attributable to owners of the parent				**190,048**			364,772
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.248**		**0.244**	0.331		0.462
Diluted		**0.243**		**0.238**	0.326		0.454

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

GROUP BALANCE SHEET

AT 31 DECEMBER 2013

	Notes	2013 US$'000	2012 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,871,229**	1,816,591
Goodwill	11	**107,760**	107,760
Intangible oil and gas assets	12	**130,874**	97,506
Investments	14	**2,403**	2,317
Deferred tax assets	7	**14,731**	23,143
Other financial assets	21	**21,928**	19,447
		3,148,925	2,066,764
Current assets			
Inventories	15	**46,814**	15,301
Trade and other receivables	16	**267,180**	239,722
Current tax receivable		**6,275**	2,007
Cash and cash equivalents	17	**72,809**	124,522
Other financial assets	21	**8,455**	96,472
		401,533	478,024
TOTAL ASSETS		**3,550,458**	2,544,788
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**113,433**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**–**	(46)
Available-for-sale reserve		**398**	–
Share-based payment reserve		**(10,280)**	(11,072)
Retained earnings		**718,303**	528,699
TOTAL EQUITY		**1,484,709**	1,293,869
Non-current liabilities			
Borrowings	20	**199,396**	34,600
Bond	20	**254,500**	–
Obligations under finance leases	25	**72**	107
Provisions	23	**308,426**	232,952
Other financial liabilities	21	**839**	–
Deferred tax liabilities	7	**760,993**	632,230
		1,524,226	899,889
Current liabilities			
Bond	20	**4,291**	–
Trade and other payables	24	**363,310**	329,666
Obligations under finance leases	25	**35**	34
Other financial liabilities	21	**169,891**	17,570
Current tax payable		**3,996**	3,760
		541,523	351,030
TOTAL LIABILITIES		**2,065,749**	1,250,919
TOTAL EQUITY AND LIABILITIES		**3,550,458**	2,544,788

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

The financial statements on pages 85 to 121 were approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2013

	Share capital US$'000	Merger reserve US$'000	Cash flow hedge reserve US$'000	Available-for-sale reserve US$'000	Share-based payments reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2012	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**
Profit for the year	–	–	–	–	–	189,604	189,604
Other comprehensive income	–	–	46	398	–	–	444
Total comprehensive income for the year	–	–	46	398	–	189,604	190,048
Share-based payment charge	–	–	–	–	8,193	–	8,193
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(7,401)	–	(7,401)
At 31 December 2013	**113,433**	**662,855**	**–**	**398**	**(10,280)**	**718,303**	**1,484,709**

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

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 US$'000	2012 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**330,935**	403,401
Depreciation	5(d)	**6,914**	1,483
Depletion	5(b)	**225,654**	216,780
Exploration costs impaired and written off	5(c)	**1,966**	23,157
Impairment of oil and gas assets	4	**–**	143,882
Gain on disposal of property, plant and equipment	4	**–**	(175,929)
Impairment on available-for-sale investments	4	**312**	4,417
Share-based payment charge	5(g)	**8,193**	5,163
Unwinding of discount on decommissioning provisions	6	**12,588**	10,148
Unrealised exchange losses	5(f)	**20,452**	8,445
Net finance costs	6	**22,479**	8,902
Operating profit before working capital changes		**629,493**	649,849
Increase in trade and other receivables		**(30,828)**	(105,088)
Increase in inventories		**(30,849)**	(3,459)
(Decrease)/increase in trade and other payables		**(5,126)**	52,610
Cash generated from operations		**562,690**	593,912
Decommissioning spend		**–**	(13,618)
Income taxes paid		**(11,278)**	(790)
Net cash flows from operating activities		**551,412**	579,504
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(950,326)**	(838,399)
Purchase of intangible oil and gas assets		**(36,593)**	(128,403)
Proceeds from farm out		**2,648**	124,587
Interest received		**583**	787
Net cash flows used in investing activities		**(983,688)**	(841,428)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**182,731**	34,692
Proceeds from bond issue		**246,345**	–
Shares purchased by Employee Benefit Trust		**(7,401)**	(10,274)
Repayment of obligations under finance leases		**(35)**	(89)
Interest paid		**(9,025)**	(632)
Other finance costs paid		**(35,712)**	(14,065)
Net cash flows from financing activities		**376,903**	9,632
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(55,373)**	(252,292)
Net foreign exchange on cash and cash equivalents		**3,660**	(2,093)
Cash and cash equivalents at 1 January		**124,522**	378,907
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**72,809**	124,522

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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 2012 the Group acquired interests in an exploration licence in Malaysia, pre-qualified as an operator in the Norwegian North Sea and during December 2013 completed the acquisition of 50% contractor interest in an Egyptian field.

The Group's financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 25 March 2014.

A listing of the Group companies is contained in note 29 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 2013 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 2013.

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 80 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 32.

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 2013. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

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. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 22.

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 amendments affect presentation only and have no impact on the Group's financial position or performance.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

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. The amendments affect presentation only and have no impact on the Group's financial position or performance.

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. The amendment has no impact on the Group's financial position or performance.

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.

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 and financial liabilities as defined in IAS 39. The Standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. 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.

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 the policy see Impairment of assets (excluding goodwill) and refer to the further economic assumptions below within Estimates in impairment of goodwill.

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 uses forward curve prices for the first three years before reverting to the Group's long term pricing assumption and discounts using a rate derived from the Group's post-tax weighted average cost of capital.

2. Summary of significant accounting policies continued

In calculating the asset fair values the Group has applied an oil price assumption of US$108.42 per barrel in 2014, US$102.30 per barrel in 2015, US$96.60 per barrel in 2016, thereafter US$90 inflated at 2% per annum from 2014 (2012: 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) and a post tax discount rate of 8.36% (2012: 8.36%).

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 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 forward curve followed by a long term real price assumption of US$90 per barrel escalated for inflation. This oil price assumption represents management's view of the long term oil price.

Decommissioning provision

Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements 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% (2012: 2%) and an annual discount rate of 5% (2012: 5%).

Carry provision

Part of the consideration for the acquisition of the interest in the Kraken field in 2012 was through development carries. These were split into two parts, a firm carry where the amount was agreed and a contingent carry where the amounts are subject to a reserves determination. In assessing the amounts to be provided, management has made assumptions about the most likely amount outcome of the reserves determination. Future developments may require further revisions to the estimate. These would be recorded as a financial liability for any outstanding balance under the firm carry and as a provision for the contingent carry.

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. As there were no indications of impairment in the current year as allowed under IAS 36 the Group has used the most recent detailed calculations of the recoverable amount which was performed in 2012, for calculating the present value in use of the CGU. The 2012 calculation used forward curve prices for the first three years before reverting to the Group's long term pricing assumption and discounted at a pre-tax rate of 20.4%.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

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 12 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%
Long leasehold land	period of lease

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

No depreciation is charged on assets under construction.

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.

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.

Farm outs – in the exploration and evaluation phase

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

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;

2. Summary of significant accounting policies continued

- recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets; and
- tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

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

Carry arrangements

Where amounts are paid on behalf of a carried party these are capitalised. Where there is an obligation to make payments on behalf of a carried party and the timing and amount are uncertain, a provision is recognised. Where the payment is a fixed monetary amount, a financial liability is recognised.

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

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.

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 but through other comprehensive income. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2. Summary of significant accounting policies continued

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 an average cost 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.

Available-for-sale reserve

Gains and losses (with the exception of impairment losses) arising from changes in available-for-sale financial investments are recognised in the available-for-sale reserve until such time that the investment is disposed of, where it is reclassified to profit or loss.

Share-based payments reserve

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

Retained earnings

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

Employee Benefit Trust

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

Provisions

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant 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.

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. Transaction costs are amortised over the life of the facility.

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.

Bond

Bonds are measured on an amortised cost basis.

Leases

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

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.

2. Summary of significant accounting policies continued

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.

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 condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

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.

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.

Field allowances

The UK taxation regime provides for a reduction in ring fence supplemental corporation tax where investments in new or existing UK assets qualify for a relief known as field allowances. Eligible assets qualify for field allowances depending on the size, type or nature of the field and are granted when DECC approves a field development plan or addendum to a field development plan. Field allowances are only triggered when production from the field commences. The Group is eligible for a number of field allowances which will materially reduce the level of future supplemental corporation taxation. Field allowances are recognised as a reduction in the charge to taxation in the years claimed.

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 two customers; Shell International Trading and Shipping Company Limited is the major customer and revenue receivable amounted to US$901,936,000 or 95% of total revenue (excluding oil hedge gains and losses) in the year ended 31 December 2013 (2012: US$879,307,000 or 99% of total revenue).

All non-current assets of the Group are located in the United Kingdom except for US$13,414,000 (2012: US$7,136,000) located in Malaysia and US$5,526,000 (2012: nil) located in Egypt.

4. Exceptional items and depletion of fair value uplift

	2013 US$'000	2012 US$'000
Recognised in arriving at profit/(loss) from operations before tax and finance income/(costs):		
Impairment of available for sale investments (note 14)	**312**	4,417
Impairment of oil and gas assets	**–**	143,882
Gain on disposal of property, plant and equipment	**–**	(175,929)
Depletion of fair value uplift	**8,509**	10,251
	8,821	(17,379)
Tax	**(5,276)**	(85,174)
	3,545	(102,553)

4. Exceptional items and depletion of fair value uplift continued

Impairment of available-for-sale investments

As consideration for the disposal of the held for sale Petisovci asset, the Group received an investment in Ascent. The accounting valuation of this shareholding at 30 June 2013 resulted in a non-cash impairment of US$312,000 (2012: US$4,417,000). During the second half of the year the share price increased resulting in a reversal of part of the impairment loss. This is recognised in the available-for-sale reserve of US$398,000.

Impairment of oil and gas assets

As part of the annual impairment review process, no impairment triggers were highlighted therefore no impairment was required for the year ended 31 December 2013. In the year ended 31 December 2012 the Heather and Broom hub was impaired by US$143,882,000 (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 UK Limited (KUFPEC) with an effective date of 1 January 2012. The gain on disposal represents the difference between the total consideration received and the derecognition of 35% of the costs of development at the date of the agreement.

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$8,509,000 (2012: US$10,251,000) is included within cost of sales in the statement of comprehensive income.

Tax

In addition to the tax impact of the exceptional items, in the prior year 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 in the year ended 31 December 2012 by US$14,279,000, of which US$10,389,000 was 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 2013 US$'000	Year ended 31 December 2012 US$'000
Revenue from crude oil sales	**953,752**	879,307
Gain on realisation of financial instruments	**–**	53
Revenue from condensate sales	**–**	(137)
Tariff revenue	**7,445**	10,189
Other operating revenue	**2**	98
	961,199	889,510

(b) Cost of sales

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Cost of operations	**240,439**	228,670
Tariff and transportation expenses	**73,452**	40,806
Change in lifting position	**2,649**	(24,360)
Inventory movement (note 15)	**(1,426)**	(3,459)
Depletion of oil and gas assets (note 10)	**225,654**	216,780
	540,768	458,437

(c) Exploration and evaluation expenses

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Unsuccessful exploration expenditure written off (note 12)	**704**	6,514
Impairment charge (note 12)	**1,262**	6,583
Pre-licence costs expensed	**6,675**	10,060
	8,641	23,157

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

5. Revenue and expenses continued

(d) General and administration expenses

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Staff costs (note 5(g))	108,226	76,861
Depreciation (note 10)	6,914	1,483
Other general and administration costs	21,450	17,570
Recharge of costs to operations and joint venture partners	(111,566)	(89,264)
	25,024	6,650

(e) Other income

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Other income	–	2,000

(f) Other expenses

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Net foreign exchange losses	20,452	8,445

(g) Staff costs

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Wages and salaries	44,790	30,069
Social security costs	5,128	4,054
Defined contribution pension costs	3,267	3,155
Expense of share-based payments (note 19)	8,193	5,163
Other staff costs	3,645	2,682
Total employee costs	65,023	45,123
Contractor costs	43,203	31,738
	108,226	76,861

The average number of persons employed by the Group during the year was 245 (2012: 173).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report on pages 56 to 74.

(h) Auditors' remuneration

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

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	336	188
Fees payable to the Group's auditors and its associates for other services:		
The audit of the Group's subsidiaries	272	207
Audit related assurance services (interim review)	73	67
Tax advisory services[1]	318	745
Other assurance services	43	5
Corporate finance services	–	148
	706	1,172
	1,042	1,360

1. Costs of US$345,600 relating to tax advice on asset and corporate acquisitions were capitalised in the year ended 31 December 2012. No costs were capitalised in the current year.

6. Finance costs/income

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Finance costs:		
Loan interest payable	**2,954**	668
Bond interest payable	**10,360**	–
Unwinding of discount on decommissioning provisions (note 23)	**12,588**	10,148
Cash flow hedge re-price premium	**–**	335
Fair value loss on financial instruments at fair value through profit or loss (note 21)	**7,724**	2,147
Finance charges payable under finance leases	**2**	3
Other financial expenses	**14,167**	8,307
	47,795	21,608
Less: amounts included in the cost of qualifying assets	**(1,241)**	(397)
	46,554	21,211
Finance income:		
Bank interest receivable	**429**	686
Fair value gain on financial instruments at fair value through profit or loss (note 21)	**9,457**	871
Unwinding of financial asset (note 21)	**1,447**	479
Other financial income	**154**	125
	11,487	2,161

Fair value gains and losses on financial instruments at fair value through profit or loss relate to foreign exchange forward and commodity forward contracts that did not qualify for hedge accounting.

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Group statement of comprehensive income		
Current income tax		
Current income tax charge	**14,462**	6,867
Adjustments in respect of current income tax of previous years	**(2,075)**	(362)
Overseas income tax		
Current income tax charge	**(3,379)**	(2,007)
Adjustments in respect of current income tax of previous years	**703**	(842)
Total current income tax	**9,711**	3,656
Relating to origination and reversal of temporary differences	**133,314**	50,724
Adjustments in respect of changes in tax rates	**409**	10,785
Adjustments in respect of deferred income tax of previous years	**(2,112)**	(23,593)
Overseas income tax		
Relating to origination and reversal of temporary differences	**9**	(389)
Total deferred income tax	**131,620**	37,527
Income tax expense reported in statement of comprehensive income	**141,331**	41,183

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

7. Income tax continued

(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 2013 US$'000	Year ended 31 December 2012 US$'000
Profit before tax	**330,935**	403,401
Statutory rate of corporation tax in the UK of 62% (2012: 62%)	**205,179**	250,109
Supplementary corporation tax non-deductible expenditure	**15,250**	6,552
Non-deductible expenditure	**508**	3,310
Deductible lease expenditure	**(38,097)**	(76,951)
Non-taxable gain on sale of assets	**–**	(109,076)
Petroleum revenue tax (net of income tax benefit)	**21,948**	19,081
North Sea tax reliefs	**(55,034)**	(29,894)
Tax in respect of non-ring fence trade	**(5,184)**	(10,837)
Deferred tax rate decrease	**409**	396
North Sea oil and gas decommissioning rate restriction	**2,824**	14,279
Adjustments in respect of prior years	**(3,482)**	(24,797)
Overseas tax rate differences	**(2,171)**	(464)
Other differences	**(819)**	(525)
At the effective income tax rate of 43% (2012: 10%)	**141,331**	41,183

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group profit and loss account	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Deferred tax liability				
Accelerated capital allowances	**1,456,498**	1,050,189	**387,107**	274,703
Deferred PRT	**151,825**	99,955	**47,910**	53,610
	1,608,323	1,150,144		
Deferred tax asset				
Losses	**(647,228)**	(359,406)	**(287,822)**	(253,847)
Decommissioning liability	**(114,113)**	(116,476)	**16,057**	(4,108)
Other temporary differences	**(100,720)**	(65,175)	**(31,632)**	(32,831)
	(862,061)	(541,057)		
Deferred tax expense			**131,620**	37,527
Deferred tax liabilities, net	**746,262**	609,087		

	2013 US$'000	2012 US$'000
Reflected in balance sheet as follows:		
Deferred tax assets	**(14,731)**	(23,143)
Deferred tax liabilities	**760,993**	632,230
Deferred tax liabilities, net	**746,262**	609,087

Reconciliation of deferred tax liabilities, net

	2013 US$'000	2012 US$'000
At 1 January 2013	**(609,087)**	(577,393)
Tax expense during the period recognised in profit or loss	**(131,620)**	(37,527)
Tax expense during the period recognised in OCI	**(75)**	(4,167)
Deferred taxes acquired	**(5,480)**	10,000
At 31 December 2013	**(746,262)**	(609,087)

7. Income tax continued

(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$2,481,000 (2012: US$2,662,000) 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 has unused overseas tax losses in Canada of approximately CAD$14,880,000 (2012: CAD$17,106,000) and in Holland of €1,180,000 (2012: €1,070,000) 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 2014. Tax losses in Holland can be carried forward for a period of up to nine years and are likely to expire in 2014.

(e) Change in legislation

Finance Act 2013 enacted a change in the mainstream corporation tax rate, reducing it from 23% to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The impact of the change in tax rate was an increase in the tax charge of US$409,000.

Finance Act 2012 enacted a restriction on costs incurred in respect of decommissioning to 50%, compared to the North Sea ring fence rate of 62% on or after 21 March 2012. The impact of the decommissioning relief restriction in 2012 was an increase in the tax charge of US$14,279,000, of which US$10,389,000 related to the revaluation 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 was an increase in the tax charge of US$396,000.

(f) Factors affecting future tax charges

As at 31 December 2013, the Group is eligible for Field Allowances in the UK on Conrie, Alma, Galia, Thistle, Deveron, Kraken and Kraken North which will reduce the Ring Fence profits chargeable to Supplementary Charge. Field Allowances are only granted when DECC approves a field development plan and are triggered when production commences.

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		Weighted average number of shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2013 US$'000	2012 US$'000	**2013 Million**	2012 Million	**2013 US$**	2012 US$
Basic	**189,604**	362,218	**778.2**	784.1	**0.244**	0.462
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**18.1**	13.3	**(0.006)**	(0.008)
Diluted	**189,604**	362,218	**796.3**	797.4	**0.238**	0.454
Adjusted (excluding exceptional items)	**193,149**	259,665	**778.2**	784.1	**0.248**	0.331
Diluted (excluding exceptional items)	**193,149**	259,665	**796.3**	797.4	**0.243**	0.326

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2013 (2012: nil). At 31 December 2013 there are no proposed dividends (2012: nil).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

10. Property, plant and equipment

	Land and buildings US$'000	Oil and gas assets US$'000	Office furniture and equipment US$'000	Total US$'000
Cost:				
At 1 January 2012	–	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
Additions	17,272	840,665	6,491	864,428
Acquired	–	52,541	–	52,541
Cost carry	–	415,300	–	415,300
Reclassified to intangible assets (note 12)	–	(448)	–	(448)
Change in decommissioning provision	–	(44,615)	–	(44,615)
At 31 December 2013	**17,272**	**4,142,012**	**27,840**	**4,187,124**
Depletion and depreciation:				
At 1 January 2012	–	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
Charge for the year	–	225,654	6,914	232,568
At 31 December 2013	**–**	**1,301,538**	**14,357**	**1,315,895**
Net carrying amount:				
At 31 December 2013	**17,272**	**2,840,474**	**13,483**	**2,871,229**
At 31 December 2012	–	1,802,685	13,906	1,816,591
At 1 January 2012	–	1,267,028	6,530	1,273,558

During the year ended 31 December 2013, the Group acquired a non-operated interest in the producing oil field Alba, in the UK Continental Shelf, which has been accounted for as an asset acquisition. US$52,541,000 is included within acquired costs.

In November 2013, the Kraken field received Field Development Plan (FDP) approval which triggered the deferred consideration of US$45,000,000 due to Canamens Limited. In addition, US$5,000,000 in respect of the Group's interest in Kraken and a further £7,000,000 (US$11,592,000) in respect of back-in payments associated with the sole risk drilling undertaken by the previous operator of the Kraken appraisal well and exploration sidetrack became payable. These amounts are included within 'Additions'.

The consideration payable to Nautical Petroleum plc and First Oil plc for 40% of the Kraken field in 2012 were development carries, split between a US$240,000,000 'firm' carry (payable on FDP approval) and a 'contingent' carry (payable up to US$144,000,000 subject to reserves determination). US$320,000,000 has been included within 'Cost carry' above. The remaining US$164,176,000 balance of the 'firm' carry and US$80,000,000 of the 'contingent' carry have been provided within financial liabilities (note 21) and provisions (note 23) respectively as at 31 December 2013.

Under the 2012 farm out agreement with KUFPEC for a 35% share of the Alma/Galia development, KUFPEC were required to carry the Company for US$182,000,000. This amount was initially recognised as an 'other receivable' (note 21) and then transferred to PP&E as the carry was exhausted. During the year KUFPEC carried the Company for US$98,300,000 (2012: US$86,698,000) under this carry arrangement. The cost of the 35% share of assets disposed in 2012 was US$143,054,000.

There has been no impairment in the year ended 31 December 2013. In the prior year the Heather and Broom hub was impaired by US$143,882,000 following a delay in phasing of production to allow drilling of the West Fault Block well at Thistle in 2013 and an increase in capital expenditure associated with the field life extension programme. Refer to note 11 in respect of key assumptions used in value in use calculations.

At 31 December 2012, due to the recognition of proven and probable reserves for the Kraken field, US$61,994,000 of costs in relation to Kraken were reclassed from intangible to PP&E. Also during 2012, 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.

10. Property, plant and equipment continued

The net book value at 31 December 2013 includes US$1,581,847,000 (2012: US$599,620,000) of pre-development assets and development assets under construction which are not being depreciated. Also US$10,142,000 of land and US$7,130,000 (2012: nil) of costs relating to the construction of the Group's new head office have not been depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2013 was US$1,241,000 and relate to the Alma/Galia and Kraken development projects as well as the construction of the new office building (2012: US$397,000). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 0.95% (2012: 0.84%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2013 was US$141,000 (2012: US$141,000) of oil and gas assets. The net book value of US$10,695,000 (2012: nil) for land is held under a long lease.

11. Goodwill

A summary of goodwill is presented below:

	2013 US$'000	2012 US$'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 assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount. In certain circumstances IAS 36 allows the use of the most recent detailed calculations of the recoverable amount performed in an earlier period as the basis for the current year's goodwill impairment test. The most recent detailed calculation of the recoverable amount was performed in 2012 and this has been used as the basis for the tests in the current year as the criteria of IAS 36 has been met.

The recoverable amount of the CGU in 2012 was 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. 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; and
- 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 in the 2012 test, management 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.

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 in 2012 was 20.4%.

Sensitivity to changes in assumptions

The key assumptions to which the calculation of the value in use is most sensitive are oil price and production volumes. No sensitivities need to be included as there is not a reasonably possible change that could result in an impairment.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

12. Intangible oil and gas assets

	US$'000
Cost	
At 1 January 2012	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
Additions	30,852
Farm out	(2,648)
Acquisition of interests in licences	6,837
Write-off of relinquished licences previously impaired	(6,553)
Unsuccessful exploration expenditure written off	(704)
Change in decommissioning provision	(155)
Reclassified from property, plant and equipment (note 10)	448
At 31 December 2013	**228,769**
Provision for impairment	
At 1 January 2012	(101,357)
Impairment charge for the year	(6,583)
Write-off of relinquished licences previously impaired	4,754
At 31 December 2012	(103,186)
Impairment charge for the year	(1,262)
Write-off of relinquished licences previously impaired	6,553
At 31 December 2013	**(97,895)**
Net carrying amount:	
At 31 December 2013	**130,874**
At 31 December 2012	97,506
At 1 January 2012	24,347

Included within 'Acquisition of interests in licences' in 2013 is US$1,310,000 relating to a farm-in to a 50% non-operated interest in exploration licence P2006 Block 21/6b (Avalon) completed during the year. Also included is the Group's 50% interest in the North West October block in Egypt, acquired in December from Arabian Oil Company Limited (AOC), which is refundable by AOC in the event that first oil is not achieved.

Included within 'Acquisition of interests in licences' in 2012 was the US$36,103,000 initial payment made for the acquisition of 20% of Kraken from Canamens Limited. On 31 December 2012, the costs associated with Kraken were reclassified to PP&E due to the recognition of proven and probable reserves. In addition, costs of US$3,000,000 to acquire an interest in two exploration licences in Malaysia are included within 'Acquisition of interests in licences'.

In August 2013, an agreement was completed whereby KUFPEC and Spike Exploration UK Ltd ('Spike') are to take 25% and 30% working interests respectively in the Cairngorm discovery (blocks 16/2b and 16/3d). KUFPEC and Spike have agreed to pay a premium by way of a promoted carry on the Cairngorm appraisal well and to pay their equity share of back costs of US$2,648,000 which are disclosed within 'Farm out' costs.

During the year ended 31 December 2013, US$6,553,000 of costs relating to relinquished licences previously impaired were written off (2012: US$4,754,000).

The impairment charge for the year ended 31 December 2013 includes costs in relation to the Peik licence which is in the process of being relinquished. During the year ended 31 December 2012 the impairment charge includes the costs of the Tryfan exploration well which proved to be uncommercial.

13. Assets held for sale

	US$'000
At 1 January 2012	1,254
Reclassified to intangible fixed assets (note 12)	(1,254)
At 31 December 2013 and 31 December 2012	**–**

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 were reclassified to intangible fixed assets.

14. Investments

	US$'000
Cost	
At 1 January 2012, 31 December 2012 and 31 December 2013	19,231
Provision for impairment	
At 1 January 2012	(12,497)
Impairment charge for the year	(4,417)
At 31 December 2012	(16,914)
Impairment charge for the year	(312)
Reversal of impairment loss	398
At 31 December 2013	**(16,828)**
Net carrying amount:	
At 31 December 2013	**2,403**
At 31 December 2012	2,317
At 1 January 2012	6,734

The investment relates to 160,903,958 new ordinary shares in Ascent acquired in 2011. The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in an additional non-cash impairment of US$312,000 in the six months to 30 June 2013 (year ended 31 December 2012: US$4,417,000). Since June 2013, the quoted share price has increased, resulting in a reversal of part of the impairment loss of US$398,000. This has been recognised in the available-for-sale reserve.

15. Inventories

	2013 US$'000	2012 US$'000
Crude oil	**16,273**	15,301
Diesel	**1,179**	–
Materials	**29,362**	–
	46,814	15,301

16. Trade and other receivables

	2013 US$'000	2012 US$'000
Trade receivables	**93,252**	94,818
Joint venture receivables	**116,341**	100,918
Underlift position	**17,248**	9,242
VAT receivable	**16,751**	14,751
Other receivables	**15,055**	652
	258,647	220,381
Prepayments and accrued income	**8,533**	19,341
	267,180	239,722

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 2013 no impairment provision for trade receivables was necessary (2012: nil).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

16. Trade and other receivables continued

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

As at 31 December 2013 and 31 December 2012 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 largely due to their short-term maturities.

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 due to their short-term maturities. Included within the cash balance at 31 December 2013 is restricted cash of nil (2012: US$14,880,000) 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:

	2013 US$'000	2012 US$'000
Authorised, issued and fully paid 802,660,757 (2012: 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.

There were no new issues of shares during 2013 or 2012.

At 31 December 2013 there were 25,510,520 shares held by the Employee Benefit Trust (2012: 22,966,471), the increase is 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. A Sharesave Plan was approved in 2012. The grant values for all schemes are based on the average share price from the three days preceding the 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 2013, 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
2013 awards	127p	99%
2012 awards	124p	95%
2011 awards	137p	78%
2010 awards	101p	58%

19. Share-based payment plans continued

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

	2013 Number[1]	2012 Number[1]
Outstanding at 1 January	**1,018,357**	526,080
Granted during the year	**848,922**	783,410
Exercised during the year	**(359,077)**	(230,743)
Forfeited during the year	**(24,201)**	(60,390)
Outstanding at 31 December	**1,484,001**	1,018,357

1. Includes invested and matching shares.

There were no share awards exercisable at either 31 December 2013 or 2012.

The weighted average contractual life for the share awards outstanding as at 31 December 2013 was 1.0 years (2012: 1.1 years).

The charge recognised in the 2013 statement of comprehensive income in relation to matching share awards amounted to US$1,058,000 (2012: US$701,000).

Restricted Share Plan (RSP)

Under the Restricted Share Plan scheme, employees are granted shares in EnQuest over a discretionary vesting period, at the direction of the Remuneration Committee of the Board of Directors of EnQuest, which may or may not be subject to the satisfaction of performance conditions. Awards made in 2010, 2011, 2012 and 2013 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
2013 awards	127p	98%
2012 awards	122p	85%
2011 awards	119p	92%
2010 awards	103p	92%

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

	2013 Number	2012 Number
Outstanding at 1 January	**8,158,207**	8,305,132
Granted during the year	**1,567,800**	686,000
Exercised during the year	**(1,055,827)**	(738,753)
Forfeited during the year	**(290,462)**	(94,172)
Outstanding at 31 December	**8,379,718**	8,158,207
Exercisable at 31 December	**2,191,424**	1,312,156

The weighted average contractual life for the share awards outstanding as at 31 December 2013 was 1.0 years (2012: 1.2 years).

The charge recognised in the year ended 31 December 2013 amounted to US$3,007,000 (2012: US$2,572,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

19. Share-based payment plans continued

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted in 2011, 2012 and 2013 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 third 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
2013 awards	127p	97%
2012 awards	124p	94%
2011 awards	137p	96%

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

	2013 Number	2012 Number
Outstanding at 1 January	**4,602,639**	1,668,522
Granted during the year	**3,936,000**	3,021,117
Forfeited during the year	**(239,613)**	(87,000)
Outstanding at 31 December	**8,299,026**	4,602,639

There were no share awards exercisable at either 31 December 2013 or 2012.

The weighted average contractual life for the share awards outstanding as at 31 December 2013 was 1.5 years (2012: 1.9 years).

The charge recognised in the year ended 31 December 2013 amounted to US$4,066,000 (2012: US$1,802,000).

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 three or five years. The right to exercise the option is at the employee's discretion at the end of the period previously chosen, for a period of six months.

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
2013 awards	20p	100%
2012 awards	20p	83%

19. Share-based payment plans continued

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

	2013 Number	2012 Number
Outstanding at 1 January	**697,380**	–
Granted during the year	**464,460**	746,880
Forfeited during the year	**(75,720)**	(49,500)
Outstanding at 31 December	**1,086,120**	697,380

There were no share options exercisable at either 31 December 2013 or 2012.

The weighted average contractual life for the share options outstanding as at 31 December 2013 was 2.5 years (2012: 2.9 years).

The charge recognised in the 2013 statement of comprehensive income amounted to US$62,000 (2012: US$88,000).

The Company has recognised a total charge of US$8,193,000 (2012: US$5,163,000) 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 2012 the Group had a 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 comprising a committed amount of US$525,000,000 with an additional US$375,000,000 available primarily for investment opportunities with the lenders' consent.

On 30 October 2013 the Group established a new six year US$1,700,000,000 multi-currency credit facility, comprising of a committed amount of US$1,200,000,000 with a further US$500,000,000 available through an accordion structure.

Interest on the revolving credit facility is payable at US LIBOR plus a margin of 2.50% to 3.75%, dependent on specified covenant ratios. A facility non-utilisation commitment fee is payable at 40% of the interest margin.

At 31 December 2013, US$225,809,000 was drawn down under the Group's facility agreement (2012: US$34,600,000) and LoC utilisation was US$181,543,000 (2012: US$123,750,000). Unamortised facility fees of US$26,413,000 have been netted off against the draw downs in the balance sheet.

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.

Bond

In February 2013, the Group issued a 5.5% Sterling Retail Bond through the Order book for Retail Bonds (ORB) of the London Stock Exchange (ORB). The original bond raised £145,000,000 with an additional £10,245,000 issued in November 2013.

The bond pays a coupon of 5.5% payable bi-annually in February and August and matures in 2022.

The bond had a fair value of US$263,498,446 but is carried at its amortised cost of US$258,791,000. The fair value has been determined by reference to the price available from the market on which the bond is traded.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

21. Other financial assets and financial liabilities

	2013 US$'000	2012 US$'000
Financial instruments at fair value through other comprehensive income		
Current liabilities		
Cash flow hedges:		
Forward foreign currency contracts	–	121
Financial instruments at fair value through profit or loss		
Current assets		
Derivatives not designated as hedges:		
Commodity forward contracts	–	1,170
Forward foreign currency contracts	8,455	–
	8,455	1,170
Non-current assets		
Derivatives not designated as hedges:		
Forward foreign currency contracts	702	–
Current liabilities		
Derivatives not designated as hedges:		
Commodity forward contracts	5,084	299
Forward foreign currency contracts	631	–
	5,715	299
Non-current liabilities		
Derivatives not designated as hedges:		
Forward foreign currency contracts	839	–
Loans and receivables		
Current assets		
Other receivable	–	95,302
Non-current assets		
Other receivable	21,226	19,447
Other financial liabilities at amortised cost		
Current liabilities		
Other liability	164,176	17,150
Total current assets	8,455	96,472
Total non-current assets	21,928	19,447
Total assets	30,383	115,919
Total current liabilities	169,891	17,570
Total non-current liabilities	839	–
Total liabilities	170,730	17,570

Commodity forward contracts

In August and September 2013, the Group entered into five options in order to hedge the exposure to changes in future cash flows from the sale of oil production for approximately 3,600,000 barrels of oil in 2014. These instruments were deemed to be ineffective for hedge accounting purposes and are therefore designated as 'At fair value through profit and loss' (FVTPL). These contracts had a fair value of US$5,084,000 (loss). Losses of US$5,084,000 were taken into profit and loss during the year and are included within other finance expenses.

In November 2012, the Group entered into three separate put and call options in order to hedge the exposure to 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. 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 nil (2012: US$871,000). The gains of US$871,000 at 31 December 2012 were reversed during the current year and have been taken to the income statement where US$1,170,000 is included within other finance costs and US$299,000 is included within other finance income.

During 2013, additional put and call options hedging oil production for approxiamately 3,600,000 barrels of oil in 2013 were entered into but had expired by 31 December 2013. Therefore there is no fair value or profit and loss account impact during the year.

21. Other financial assets and financial liabilities continued

Forward foreign currency contracts

During the year ended 31 December 2013, the Group entered into various forward currency contracts, namely Sterling, Euro and Norwegian Krone. These contracts do not qualify for hedge accounting. At 31 December 2013 these had a net fair value of US$7,688,000 (asset). The gains of US$7,688,000 were recognised in profit and loss, US$9,158,000 shown within other finance income and US$1,470,000 shown within other finance expenses. These contracts are due to expire during 2014 and 2015.

Also during the year various forward foreign currency contracts, namely Sterling and Euro, were entered into. However, these had expired by 31 December 2013 and therefore have no fair value or impact on the income statement.

At 31 December 2012 three foreign currency contracts were held with a net fair value of US$121,000 (liability); these had fully unwound by 31 December 2013. During 2013, the unrealised loss of US$46,000 net of deferred tax of US$75,000 was reversed through other comprehensive income. There was no impact in profit or loss during the year in respect of these contracts (2012: nil).

Other receivable

As part of the farm out to KUFPEC of 35% of the Alma/Galia development, KUFPEC agreed to 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, the fair value of which was US$19,300,000. Receivables were recognised for both of these at 31 December 2012. At 31 December 2013, the carry element has fully unwound and during the year ended 31 December 2013, US$95,300,000 was capitalised within property, plant and equipment. The unwinding of discount on the other receivable of US$1,447,000 is included within finance income for the year ended 31 December 2013 (2012: US$479,000).

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. At 31 December 2012, as costs were expected to exceed the cap, a liability of US$17,150,000 was recognised. This was subsequently settled during the year ended 31 December 2013.

The consideration for the acquisition of 40% of the Kraken field from Nautical and First Oil in 2012 was through development carries. These were split into a 'firm' carry and a 'contingent' carry dependent upon reserves determination. A financial liability is recognised at 31 December 2013 for the remainder of the 'firm' carry amounting to US$164,176,000. This is expected to expire at the end of 2014 or early 2015. The 'contingent' carry has been accounted for as a provision (note 23).

	Other liability US$'000	Other receivable US$'000
At 1 January 2012	–	–
Additions during the year	17,150	114,602
Unwinding of discount	–	479
At 31 December 2012	17,150	115,081
Additions during the year	240,000	–
Utilised during the year	(92,974)	(95,302)
Unwinding of discount	–	1,447
At 31 December 2013	**164,176**	**21,226**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

22. Fair value measurement

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

	Date of valuation	Total US$'000	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000
Assets measured at fair value:					
Derivative financial assets					
Forward foreign currency contracts	31 December 2013	9,158	–	9,158	–
Other financial assets					
Available-for-sale financial investments					
Quoted equity shares	31 December 2013	2,404	2,404	–	–
Liabilities measured at fair value:					
Derivative financial liabilities					
Forward foreign currency contracts	31 December 2013	1,470	–	1,470	–
Commodity forward contracts	31 December 2013	5,084	–	5,084	–
Other liability					
Liabilities for which fair values are disclosed (notes 20 and 25)					
Interest bearing loans and borrowings	31 December 2013	199,396	–	199,396	–
Obligations under finance leases	31 December 2013	107	–	107	–
Sterling retail bond	31 December 2013	263,498	–	263,498	–

There have been no transfers between Level 1 and Level 2 during the period.

The forward foreign currency and the commodity forward contracts were valued externally by the respective banks.

23. Provisions

	Decommissioning provision US$'000	Carry provision US$'000	Total US$'000
At 1 January 2012	181,237	–	181,237
Additions during the year	37,609	–	37,609
Farm in to West Don	14,569	–	14,569
Farm out of Alma/Galia development	(7,054)	–	(7,054)
Changes in estimates	10,061	–	10,061
Unwinding of discount	10,148	–	10,148
Utilisation	(13,618)	–	(13,618)
At 31 December 2012	232,952	–	232,952
Additions during the year	3,941	80,000	83,941
Acquisition	27,341	–	27,341
Changes in estimates	(48,711)	–	(48,711)
Unwinding of discount	12,588	–	12,588
Utilisation	315	–	315
At 31 December 2013	**228,426**	**80,000**	**308,426**

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 2032 assuming no further development of the Group's assets. The liability is discounted at a rate of 5.0% (2012: 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. Provisions continued

Carry provision

Consideration for the acquisition of 40% of the Kraken field from Nautical and First Oil in 2012 was through development carries. A provision has been recognised for the 'contingent' carry which is dependent on a reserves determination. The reserves determination would be triggered by the carried parties, based on drilling work, or if later the date on which the 'firm' carry expires. The 'contingent' carry is pro-rated between 100 and 166 million barrels of proven and probable reserves. The FDP which was approved in November 2013 stated 137 million barrels and this would give rise to a carry of approximately US$80,000,000. The carry is estimated to be paid 12 months after the 'firm' carry has expired in late 2014 or early 2015.

24. Trade and other payables

	2013 US$'000	2012 US$'000
Trade payables	**131,526**	81,885
Accrued expenses	**231,295**	232,877
Other payables	**489**	14,904
	363,310	329,666

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 largely due to the short-term maturities.

25. 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 nine years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2013 US$'000	2012 US$'000
Not later than one year	**2,703**	2,025
After one year but not more than five years	**3,267**	4,781
Over five years	**2,235**	2,772
	8,205	9,578

Lease payments recognised as an operating lease expense during the year amounted to US$2,676,000 (2012: US$2,324,819).

Under the Dons Northern Producer Agreement a minimum notice period of 12 months exists whereby the Group expects the minimum commitment under this agreement to be approximately US$24,363,000 (2012: US$17,240,000).

(ii) Finance lease commitments

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

	2013 Minimum payments US$'000	2013 Present value of payments US$'000	2012 Minimum payments US$'000	2012 Present value of payments US$'000
Due in less than one year	**36**	**35**	37	34
Due in more than one year but not more than five years	**74**	**72**	110	107
	110	**107**	147	141
Less future financing charges	**(3)**	**–**	(6)	–
	107	**107**	141	141

The leases are fixed rate leases with an effective borrowing rate of 2.37% (2012: 2.37%) and have an average remaining life of two years (2012: three years).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

25. Commitments and contingencies continued

On 20 December 2013, the Group entered into a bareboat charter with Armada Kraken PTE Limited (Armada) for the lease of an FPSO vessel for the Kraken field. The lease will commence on the date of first production which is currently targeted to come onstream by 2017. Armada will construct the vessel and the Group will incur an initial payment, before the lease commences, of US$100,000,000 due on certain milestones being reached by Armada.

(iii) Capital commitments

At 31 December 2013, the Group had capital commitments excluding the above lease commitments amounting to US$447,293,000 (2012: US$203,620,000).

Contingencies

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 production.

In addition, there is contingent consideration of US$20,000,000 after the acquisition of Nio (Sabah) Limited which will be determined based on proven and probable 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 2014.

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 ended 31 December 2012.

26. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 29 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 2013 (2012: 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:

	2013 US$'000	2012 US$'000
Short term employee benefits	**3,775**	4,306
Share-based payments	**4,314**	4,086
Post employment pension benefits	**31**	30
	8,120	8,422

27. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of 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 2013 and 2012 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 2012, the Board of EnQuest approved a policy to hedge up to a maximum of 75% 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 three put and call options, to hedge approximately 1,000,000 barrels of oil in the first quarter of 2013 and during the year the Group entered into put and call options covering a further 3,600,000 barrels of oil production for 2013. These contracts consisted of put spreads at US$95–US$100 per barrel and US$70-US$75 per barrel and calls at an average of US$121.6 per barrel, all executed at nil cost.

In August and September 2013, some commodity hedging contracts were entered into partially to hedge the exposure to fluctuations in the Brent oil price during 2014. A total of 3,600,000 barrels of puts (300,000 barrels a month) were bought at a price of US$106 per barrel and 7,200,000 barrels of calls were sold at a price of US$106, which are only triggered if the monthly average price of Brent exceeds a fixed price for the given month (ranging from US$119 to US$124 per barrel). Since the year end the Company has swapped an additional 1,000,000 barrels in Q2 at prices of approximately US$109 per barrel.

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 2013	**12,069**	**(35,907)**	**4,586**	**(13,645)**
31 December 2012	76,337	(76,323)	29,008	(29,003)

This analysis includes the impact of the ineffective oil hedges outstanding at 31 December 2013.

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 and the bond which is denominated in Sterling. 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% (2012: 1%) of the Group's sales and 91% (2012: 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 partially to hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. The contracts matured during 2012 and 2013.

During the first half of 2013, the Group entered into a series of forward contracts and structured products to hedge a portion of its Sterling, Euro and Norwegian Krone exposure throughout 2013 and 2014. In 2013, a total of £223,000,000 was hedged at an average rate of US$1.51:£1. The structured products have an average strike price of US$1.46:£1. If the spot rate at expiry is above US$1.64:£1 then there is no trade and the Group funds its Sterling requirement through the spot market or drawing Sterling on the bank facility. Between US$1.64:£1 and US$1.33:£1, EnQuest trades at the lower of US$1.46:£1 and the spot rate and below US$1.33:£1, EnQuest trades a higher volume of currency at US$1.46:£1. This structure has also been used for hedging a total of £182,000,000 of Sterling exposure in 2014.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

27. Risk management and financial instruments continued

The same structure has also been used to hedge the Group's Norwegian Krone (NOK) exposure which arises as part of the Kraken development project. In 2013, a total of NOK255,000,000 was hedged and in 2014 NOK367,000,000 has been hedged.

In 2013, EnQuest exchanged a total of €74,000,000 for US$96,000,000 mainly done by placing forward contracts, however €11,000,000 was placed on the same structured basis as the Sterling and Norwegian Krone arrangements described above.

The following table summarises the impact on the Group's pre-tax profit and equity (due to the change in the fair value of monetary assets and liabilities) of a reasonably possible change in the United States Dollar to 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 2013	**(30,917)**	**30,917**	**(11,748)**	**11,748**
31 December 2012	(24,918)	24,918	(9,234)	9,234

Credit risk

The Group trades only with recognised international oil and gas operators and at 31 December 2013 there were no trade receivables past due (2012: nil), and US$1,981,000 of joint venture receivables past due but not impaired (2012: US$4,078,000). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	**2013 US$'000**	2012 US$'000
Less than 30 days	**4**	143
30–60 days	**–**	144
60–90 days	**–**	78
90–120 days	**–**	89
120+ days	**1,977**	3,624
	1,981	4,078

At 31 December 2013, the Group had two customers accounting for 72% of outstanding trade and other receivables (2012: one customer, 87%) and three joint venture partners accounting for 99% of joint venture receivables (2012: three joint venture partners, 90%).

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 2013 the Group was in compliance with all financial covenant ratios agreed with its bankers.

At 31 December 2012 the Group had a 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 comprising a committed amount of US$525,000,000 with an additional US$375,000,000 available primarily for investment opportunities with the lenders' consent. On 31 October 2013, the Group established a six year US$1,700,000,000 multi-currency credit facility, comprising of a committed amount of US$1,200,000,000 with a further US$500,000,000 available through an accordion structure. An upfront arrangement fee of 2.00% was payable.

Interest on the revolving credit facility is payable at LIBOR relative to each agreed loan period plus a margin of 2.50% to 3.75% dependent on the Group's leverage ratio. Facility non-utilisation commitment fees are payable at 40% of the interest margin.

27. Risk management and financial instruments continued

The maturity profiles of the Group's non-derivative financial liabilities are as follows:

Year ended 31 December 2013	On demand US$'000	Up to 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Loans and borrowings	–	26,100	21,580	38,310	255,809	341,799
Bond	–	14,140	14,140	42,418	299,502	370,200
Obligations under finance leases	–	35	36	36	–	107
Accounts payable and accrued liabilities	363,310	–	–	–	–	363,310
Other liability	–	164,176	–	–	–	164,176
Carry provision	–	–	80,000	–	–	80,000
	363,310	204,451	115,756	80,764	555,311	1,319,592

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	Over 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

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 2013	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	–	16,126	43,440	45,475	–	105,041
Foreign exchange forward contracts	–	(16,126)	(43,440)	(45,475)	–	(105,041)
	–	–	–	–	–	–

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)
	–	–	–	-	–	–

At 31 December 2012 and 2013, the Group held commodity forward contracts for which, based on the oil price at 31 December 2012 and 2013, 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 25, 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 87.

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 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. In addition there is approval from the Board to hedge up to 75% of annual production in year 1, 60% in year 2 and 50% in year 3. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

27. Risk management and financial instruments continued

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.

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

	2013 US$'000	2012 US$'000
Loans, borrowings and bond net (A)	**453,896**	34,600
Cash and short term deposits	**(72,809)**	(124,522)
Net debt/(cash) (B)	**381,087**	(89,922)
Equity attributable to EnQuest PLC shareholders (C)	**1,484,709**	1,293,869
Profit for the year attributable to EnQuest PLC shareholders (D)	**189,604**	362,218
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**193,149**	259,665
Gross gearing ratio (A/C)	**0.306**	0.027
Net gearing ratio (B/C)	**0.257**	n/a
Shareholders' return on investment (D/C)	**13%**	28%
Shareholders' return on investment excluding exceptionals (E/C)	**13%**	20%

28. Post balance sheet events

In January 2014, EnQuest was offered and accepted two licences in the Norwegian 2013 Awards in Pre-defined Areas licensing round, both located in the Norwegian Sea. EnQuest was offered production licence 758 (Rosslyng), with EnQuest as the operator and having a 35% interest. EnQuest was also offered licence 760 (Chinook), with Total as the operator, both Total and EnQuest having a 50% interest each. In both cases, the work commitments in the initial two year period entail 3D seismic licensing and reprocessing.

In Q1 2014, EnQuest accepted an 'out of round' licence in the Don North East (Don NE) area for blocks 211/18e and 211/19c, including Area 23 and Area 24 and an undrilled extension to the Don NE field. Within the first twelve months of the licence, it is intended to submit a field development plan in relation to Area 24, to include at least one production well. This will provide further opportunities to enhance Dons area production.

Acquisition of Greater Kittiwake assets

On 22 October 2013, the Group announced an agreement with Centrica North Sea Oil Limited (Centrica) to acquire the UKCS Greater Kittiwake area assets as well as Centrica's 100% interest in the Kittiwake to Forties oil export pipeline. Consideration is US$39,900,000 and will additionally assume net debt of US$5,100,000, which is subject to certain working capital and other adjustments. The Group acquired the Greater Kittiwake assets partly due to its proximity to the Scolty/Crathes field and the potential for a tie-back, in addition, the Group sees significant potential to improve production through infill drilling and through exploring further prospects in the area.

The acquisition completed on 28 February 2014.

The provisional fair values of the identifiable assets and liabilities of Greater Kittiwake, as at the date of acquisition are:

	Provisional fair value recognised on acquisition US$'000
Property, plant and equipment	**59.2**
Intangible assets	**19.8**
Working capital	**(9.2)**
Underlift position	**6.0**
Decommissioning provision	**(66.2)**
Deferred tax liability	**(7.9)**
Total identifiable net assets at fair value	**1.7**
Goodwill arising on acquisition	**55.0**
Purchase consideration	**56.7**

28. Post balance sheet events continued

	US$'000
Purchase consideration transferred	**30.0**
Contingent consideration	**26.7**
Total purchase consideration	**56.7**

The fair values are provisional as the acquisition completed after the year end and a full assessment of the fair values is still required. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition.

The goodwill of US$55,000,000 comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

As the acquisition did not complete prior to the end of the year, there has been no contribution to revenue or profit before tax for the Group.

Transaction costs have been expensed and will be included in administration expenses.

The Group will pay deferred consideration of US$30,000,000 contingent on regulatory approval of a Field Development Plan for the Scolty field and/or the Crathes field. This has been fair valued at US$18,000,000. In addition contingent consideration may be payable subject to future exploration success with a fair value of US$8,700,000. At the acquisition date, the fair value of the total contingent consideration was estimated to be US$26,700,000.

29. Subsidiaries

At 31 December 2013, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest 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[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Oceania Limited[1]	Exploration, extraction and production of hydrocarbons	Cayman Islands	100%
EnQuest Heather Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited[1]	Extraction and production of hydrocarbons	England	100%
Stratic Energy (UK) Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited[1]	Intermediate holding company	England	100%
Grove Energy Limited[1]	Intermediate holding company and exploration of hydrocarbons	Canada	100%
Grove Energy (Tunisia) Limited[1]	Exploration, extraction and production of hydrocarbons	USA	100%
EnQuest ENS Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited[1]	Leasing	England	100%
Nio Petroleum (Sabah) Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited[1]	Dormant	England	100%
EQ Property Limited[1]	Property development	England	100%
EnQuest Energy Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited[1]	Intermediate holding company	England	100%
EnQuest NWO Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Malaysia Limited[1]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UK Limited[1]	Dormant	England	100%
EnQuest ED Limited[1]	Dormant	England	100%
EQ Petroleum Developments Malaysia SDN. BHD[1]	Exploration, extraction and production of hydrocarbons	Malaysia	100%

1. 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 2013 which comprise the Company Balance Sheet and the related notes 1 to 15. 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 122, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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 2013.

Ernst & Young LLP
Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 March 2014

COMPANY BALANCE SHEET

AT 31 DECEMBER 2013

	Note	2013 US$'000	2012 US$'000
Fixed assets			
Investments	3	**1,349,177**	1,449,179
Current assets			
Debtors	5	**224,681**	32,196
Cash at bank and in hand	4	**668**	160
		225,349	32,356
Creditors: amounts falling due within one year	8	**(118,859)**	(265,833)
Net current assets/(liabilities)		**106,490**	(233,477)
Total assets less current liabilities		**1,455,667**	1,215,702
Creditors: amounts falling due after one year	9	**(254,500)**	–
Net assets		**1,201,167**	1,215,702
Share capital and reserves			
Called up share capital	10	**61,249**	61,249
Share premium account	11	**52,184**	52,184
Merger reserve	11	**905,890**	1,081,890
Other reserve	11	**40,143**	40,143
Share-based payment reserve	11	**(10,280)**	(11,072)
Profit and loss account	11	**151,981**	(8,692)
		1,201,167	1,215,702

The attached notes 1 to 15 form part of these Company financial statements.

The financial statements on pages 124 to 130 were approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Corporate information

The Company financial statements of EnQuest PLC (the Company) for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 25 March 2014.

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.

During 2012 the Group acquired interests in an exploration licence in Malaysia, pre-qualified as an operator in the Norwegian North Sea and during December 2013 completed the acquisition of a 50% contractor interest in an Egyptian field.

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 2013 of US$15,327,000 (2012: loss US$757,000). There were no other recognised gains or losses in the period (2012: 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 80 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

2. Summary of significant accounting policies continued

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.

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 2012	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
Additions	75,998	–	75,998
At 31 December 2013	**1,524,369**	**808**	**1,525,177**
Provision for impairment			
At 1 January 2013	–	–	–
Impairment charge for the year	176,000	–	176,000
At 31 December 2013	**176,000**	**–**	**176,000**
Net book value			
At 31 December 2013	**1,348,369**	**808**	**1,349,177**
At 31 December 2012	1,448,371	808	1,449,179
At 31 December 2011	1,202,483	808	1,203,291

3. Investments continued

Current year additions include US$67,805,000 of new shares issued by the Company's subsidiary EnQuest Global Limited which is the holding company of the Group's entities in Egypt and Malaysia.

On 25 November 2013 and 5 December 2013, the Company's subsidiary EnQuest North Sea BV distributed, in total, US$176,000,000 of share premium through a reduction of the net intercompany receivable from EnQuest PLC. This has been accounted for as a dividend. The distribution of share premium in EnQuest North Sea BV has resulted in a reduction in the subsidiary's net assets, creating an impairment in the Company's investment in the subsidiary.

On 7 December 2012, as part of a Group reorganisation, the investment in Stratic UK Holdings Limited was transferred to 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.

EnQuest Norge AS was established in Norway on 27 June 2012.

Details of the Company's subsidiaries at 31 December 2013 are provided in note 29 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.

4. Cash at bank and in hand

	2013 US$'000	2012 US$'000
Cash at bank and in hand	**668**	160

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

	2013 US$'000	2012 US$'000
Amounts due from subsidiaries	**224,681**	30,412
Derivative financial instruments (note 7)	**–**	1,170
Corporation tax recoverable	**–**	614
	224,681	32,196

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of US$2,481,000 (2012: US$1,980,000) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

7. Derivative financial instruments

	2013 US$'000	2012 US$'000
Financial instruments: cash flow hedges		
Creditors: amounts falling due within one year		
Cash flow hedges:		
Forward foreign currency contracts	–	121
Financial instruments at fair value through profit or loss		
Assets due within one year		
Derivatives not designated as hedges:		
Commodity forward contracts	–	1,170
Creditors: amounts falling due within one year		
Derivatives not designated as hedges:		
Commodity forward contracts	**3,704**	299
Total assets due within one year	–	1,170
Total assets	–	1,170
Total creditors: amounts falling due within one year	**3,704**	420
Total liabilities	**3,704**	420

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 27 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.

During November 2012, the Company entered into 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. These derivative instruments had fully unwound by the end of December 2013 and therefore had no fair value. The gains of US$871,000 recognised in 2012 were reversed during 2013 within profit and loss.

In October 2013, the Company entered three 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 2014. These instruments were deemed to be ineffective and are therefore designated as at fair value through profit and loss. Losses of US$3,704,000 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 of which matured in 2013, which qualified for hedge accounting in the Group financial statements (see note 21 of the Group financial statements). As these had fully unwound by 31 December 2013, they had no fair value (2012: liability US$121,000).

8. Creditors: amounts falling due within one year

	2013 US$'000	2012 US$'000
Bond interest	**4,291**	–
Amounts due to subsidiaries	**110,096**	265,055
Derivative financial instruments (note 7)	**3,704**	420
Accruals	**768**	358
	118,859	265,833

9. Creditors: amounts falling after one year

	2013 US$'000	2012 US$'000
Bond	**254,500**	–

In February 2013, the Company issued a 5.5% Sterling Retail Bond through the Order book for Retail Bonds (ORB) of the London Stock Exchange. The original bond raised £145,000,000 with an additional £10,245,000 issued in November 2013.

The bond pays a coupon of 5.5% payable bi-annually in February and August and matures in 2022.

10. Issued share capital

	2013 US$'000	2012 US$'000
Allotted, called up and fully paid		
802,660,757 (2012: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249

At 31 December 2013 there were 25,510,520 shares held by the Employee Benefit Trust (2012: 22,966,471). The increase is due to the purchase of shares to satisfy awards made under the Company's share-based incentive schemes.

11. Reserves

	Share premium US$'000	Merger reserve US$'000	Other reserve US$'000	Share-based payments reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2013	52,184	1,081,890	40,143	(11,072)	(8,692)	1,154,453
Share-based payments charge	–	–	–	8,193	-	8,193
Loss for the year	–	–	–	-	(15,327)	(15,327)
Reclassification to merger reserve	–	(176,000)	–	–	176,000	–
Shares purchased on behalf of Employee Benefit Trust	–	–	–	(7,401)	–	(7,401)
At 31 December 2013	**52,184**	**905,890**	**40,143**	**(10,280)**	**151,981**	**1,139,918**

On 25 November 2013 and 5 December 2013, the Company's subsidiary EnQuest North Sea BV distributed, in total, US$176,000,000 of share premium, through a reduction of the net intercompany receivable from EnQuest PLC. The distribution of share premium in EnQuest North Sea BV has resulted in a reduction in the subsidiary's net assets, creating an impairment in the Company's investment in the subsidiary. The impairment charge has been reclassified to the merger reserve which was created in 2010 when the Group was formed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2013

11. 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 Company merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued where merger relief applies to the transaction. The reserve is adjusted for any write down in the value of the investment in the subsidiary.

Other reserve
The other reserve is used to record any other transactions taken straight to reserves as non-distributable.

Share-based payments reserve
The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards.

Share-based payment plan information is disclosed in note 19 of the Group financial statements.

12. Transactions with Directors
Details of Directors' remuneration are provided in the Directors' Remuneration Report.

13. 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 (2012: nil).

14. Auditors' remuneration
The Company paid US$10,400 (2012: US$10,080) 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.

15. Post balance sheet events
Refer to note 28 of the Group financial statements.

NOTES

NOTES

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Financial Calendar
28 May 2014: 2014 Annual General Meeting
August 2014: 2014 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.

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