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DRIVING RESULTS

ENQUEST PLC
ANNUAL REPORT & ACCOUNTS 2014

STRATEGIC REPORT

DRIVING RESULTS: ENQUEST IS AN OIL AND GAS DEVELOPMENT AND PRODUCTION COMPANY FOCUSED ON TURNING OPPORTUNITIES INTO VALUE BY TARGETING MATURING ASSETS AND UNDEVELOPED OIL FIELDS.

TECHNICAL SKILLS

EnQuest is a leading force in integrated development; as currently demonstrated by the c.140 MMboe Kraken development project which is proceeding on time and on budget. In 2014, EnQuest acquired the Greater Kittiwake Area ('GKA') hub, with its potential synergies with the adjacent Avalon and Scolty/Crathes discoveries. These development opportunities and the subsequent material improvements EnQuest has brought to GKA's operational efficiency, again highlight EnQuest's skills in managing maturing fields and exploiting nearby discoveries.

OPERATING SCALE

At the end of 2014, including its new team in Malaysia, EnQuest had a direct workforce of approximately 900, or 2,000 with offshore contractors. EnQuest has a breadth and depth of in-house expertise which is matched by few, if any, UK based oil companies of its size.

FINANCIAL STABILITY

EnQuest's funding facilities include a \$1.2 billion committed credit facility, with a \$500 million accordion. EnQuest renegotiated covenants with its lending banks and these have been relaxed until mid-2017. With this credit facility, a long dated debt maturity profile for the Company's bonds and a hedging programme in place for 2015 and 2016, the Company is positioned to meet its investment programme as set out in the Financial Review on page 38.

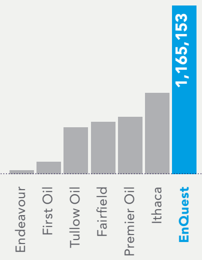
CONTENTS

HIGHLIGHTS OF 2014 WITH LATEST 2015 PERFORMANCE AND OUTLOOK

- Production averaged 27,895 Boepd, up 15.2%, over 2013. This was due to very good operational performance, with an excellent HSE performance, excellent production efficiency and with a 3,459 Boepd contribution from EnQuest's first international production.
- Net 2P reserves of 220.0 MMboe as at end 2014, up 25.2 MMboe on prior year, reserves replacement ratio of c.350%. Net contingent resources of 170.6 MMboe at end of 2014, up 49.2 MMboe.
- Revenue of $1,010 million, EBITDA[1] of $581 million, reflecting the strong operational performance.
- The Floating Production, Storage and Offloading ('FPSO') vessel for the Alma/Galia development has now left the yard and the project is on track for first oil in mid-2015.
- Kraken continues to be on budget and is on schedule for first oil in 2017. The drilling of an appraisal well in Kraken West has confirmed the presence of oil, with potential for upside. Further evaluation is ongoing.
- Cost reduction action across the board; confirming 2015 cash capex target of c.$600 million, also a unit opex reduction target of c.10% over 2014, to an average of c.$38/bbl in 2015.
- Net debt at the year end, was $932.8 million.
- Production guidance for the full year 2015 for an average of between 33,000 Boepd and 36,000 Boepd, representing a 24% annual increase at the mid-point of the range.

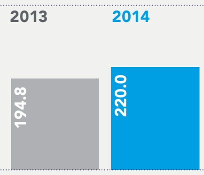
Largest UK independent producer in the UK North Sea
Total production in mass units ('000 Tonnes) for year ending November 2014

Source:
Department of Energy and Climate Change statistics



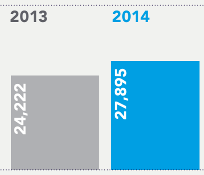
Reserves (MMboe)

+13.0%



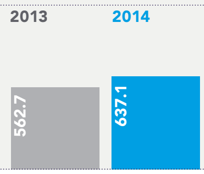
Production (Boepd)

+15.2%



Cash flow from operations ($ million)

+13.2%



ENQUEST VALUES
AGILITY

Today's ever-changing energy environment requires that we are flexible, adaptable and responsive. Our success rests on the ability to take courageous decisions and tackle challenges with great speed and flexibility. Amongst other things, I enjoy the ability to discuss new ideas and strategies to pursue value creation opportunities for the Company.
SALMAN MALIK, STRATEGY AND EVALUATIONS MANAGER

1 EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation and foreign exchange movements.

REVIEW OF OUR ACHIEVEMENTS

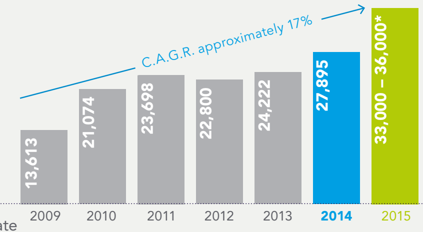
Extending the lives of maturing assets and optimising production.

ENQUEST'S FIRST FIVE YEARS AND BEYOND

Total production (Boepd)

Delivered C.A.G.R. of 15% in first five years, set to increase to a C.A.G.R. of c.17% based on guidance for 2015

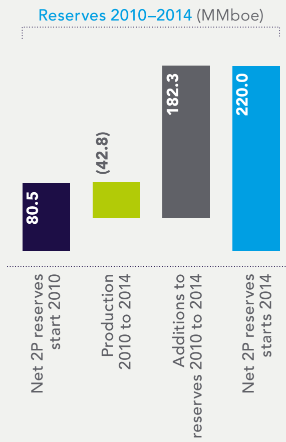
Well ahead of long term target of an average of 10% growth p.a. Average net production



*Compound Annual Growth Rate

Five years of strong reserves growth

- 514% reserve replacement ratio
- Reserve life over 20 years



IN 2014, ENQUEST WON THE OIL & GAS UK AWARD FOR BUSINESS INNOVATION.

EnQuest won the Business Innovation title in the Large Enterprise category at Oil & Gas UK's 2014 awards. EnQuest's Thistle life extension project is at the heart of a strategy to recover 35 million barrels of oil from the Thistle and Deveron fields, to extend the life of the Thistle field to 2025 and beyond.

This award recognises the Thistle project as a proven template for mature field development in the North Sea. The first phase of the Thistle life extension programme started in 2010 with a successful rig reactivation project which saw EnQuest bring Thistle drilling back online to drill its first new wells in 20 years.

Neil McCulloch, EnQuest's President, North Sea, said: "Oil & Gas UK's award is a welcome acknowledgement of how our strategy of extending the life of ageing assets and optimising production is succeeding. These achievements, which have been made with an exemplary safety record, are credit to everyone in the management, operational and support teams because a huge amount of commitment, focus, collaboration and drive goes into delivering such exceptional safe results.

It is also an important endorsement of how the right level of investment, combined with the right vision, technical expertise and innovative thinking can breathe new life into an ageing asset and give it a sustainable future".

ACHIEVEMENTS IN 2014

Q1

- Completed the acquisition of 50% of the Greater Kittiwake Area hub ('GKA'), in close proximity to EnQuest's Scolty/Crathes discoveries
- Secured an 'out of round' licence award ('Don NE') in the Don North East area
- The workover of the Heather production well H56 was the first workover on Heather for nearly a decade, it led to an 80% production uplift
- Won two licences in the Norwegian 2013 Awards in Pre-defined Areas licensing round
- Heather team achieved one year free of Lost Time Incidents ('LTI')
- Successfully issued $650 million of 7.00% senior unsecured notes, due 2022

Q2

- EnQuest secured a small field development project with PETRONAS, for the Tanjong Baram field offshore Sarawak, Malaysia
- The host vessel for the Kraken Floating Production, Storage and Offloading vessel ('FPSO') arrived in Singapore on schedule and work started on the conversion scope
- Thistle achieved one year free of LTIs
- Submitted the Field Development Plan ('FDP') for the Ythan development in Don NE
- The Avalon well confirmed a discovery, in close proximity to the recently acquired GKA hub
- Northern Producer achieved two years free of LTIs
- Acquired an interest in the PM8/Seligi Production Sharing Contract, including the Seligi oil field, once the largest oil field off Peninsular Malaysia
- Heather achieved its highest production efficiency levels in over five years

Q3

- Completed the installation of two subsea integrated template structures on the Kraken site
- Completed a workover of Mallard on GKA, Mallard was brought back online in September
- Heather reached over 100 consecutive days without any production interruptions
- New Heather water injection well H64 was brought online
- Executed the Kraken drilling rig contract
- Heather drilling team announced eight years of operation without an LTI
- Established a supplier forum, increasing collaboration on cost rationalisation, efficiency and waste minimisation objectives

Q4

- By October, the successful GKA operational improvements had increased production from 2,500 Boepd to a gross 5,500 Boepd, with significantly reduced opex per barrel
- Five Alma production wells had been fully completed by November, ready for tie-in
- Secured the approval of the Ythan Field Development Plan and commenced drilling
- Secured an offer of 14 blocks/part blocks as part of the 28th UK licensing round
- Took over operatorship of PM8/Seligi in Malaysia
- Undertook Front End Engineering Design ('FEED') studies on the proposed development of Scolty/Crathes
- Awarded Oil & Gas UK award for Business Innovation, for the Thistle life extension project

OUR STRATEGY

STRATEGIC FRAMEWORK

DELIVERING SUSTAINABLE GROWTH

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.

Market opportunity

EnQuest targets opportunities in maturing basins, to acquire development and production assets 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 and to optimise assets which are already in production; the capabilities include subsurface, facilities planning and drilling. In 2014, EnQuest again delivered production efficiency levels which we believe rank it as one of the best operators in the North Sea. EnQuest believes that these technical skills, combined with its operational scale and its financial stability leave EnQuest uniquely well positioned to deliver its sustainable growth strategy.

EnQuest is a company of substantial operational size, with high levels of cash generated from operations. EnQuest has always been focused on controlling its cost base. In recent years EnQuest was able to keep its unit operating costs broadly flat, while average costs in the North Sea doubled. Since the oil price decline started in the middle of 2014, EnQuest made further significant cuts to its cost base and continues to work with the supply chain and contractors to achieve additional savings. EnQuest's production efficiency and cost control skills are particularly valuable in the current macro environment, where sellers of oil field assets need buyers who have the technical and operational capabilities essential for the subsequent safe and effective management of the assets, and who can do so cost effectively. EnQuest is managing its business in a manner which will allow it to withstand a prolonged period of low oil prices.

Exploiting our existing reserves

DONS, THISTLE/ DEVERON, HEATHER/ BROOM, ALBA

In EnQuest's first five years, EnQuest increased its net 2P reserves by a net 30.7 MMboe, as a result of revisions to reserve estimates, reflecting the benefits of our infill drilling programme and our increased reservoir knowledge.
See pages 10, 18 et seq and 26 et seq.

Commercialising and developing discoveries

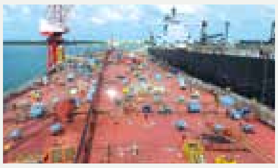
YTHAN

Through the approval of the Ythan discovery for development, EnQuest further increased the level of its net 2P reserves in 2014.
See pages 18 et seq and pages 26 and 28.

Converting contingent resources into reserves

SCOLTY/CRATHES, ALMA/ GALIA, KRAKEN

Through the promotion of Scolty/ Crathes to 2P reserves following development planning, and through promotion to reserves of additional amounts at both Alma/Galia and Kraken, EnQuest promoted 13.6 MMboe to net 2P reserves from contingent resources in 2014.
See page 12, pages 18 et seq and 26 et seq.



Making selective acquisitions

GREATER KITTIWAKE AREA, PM8/SELIGI

In 2014, EnQuest increased its net 2P reserves by 22.8 MMboe, through acquisitions.
See pages 10, 14 and 18 et seq and 34 et seq.

OUR BUSINESS MODEL

REALISING VALUE THROUGH CAPABILITY

EnQuest has the right mix of capabilities, which focus on development and production opportunities in maturing basins.

Through its proven skills, EnQuest delivers industry leading levels of production efficiency and of cost control, creating opportunities for it to add value to the assets it manages. EnQuest has the full spectrum of integrated technical capabilities needed to deliver new oil field developments successfully; combining subsurface, facilities planning and drilling.

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
- PM8/Seligi

- 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
- Ythan
- Tanjong Baram

- Dormant fields
- Access through majors and licensing rounds

NEW DEVELOPMENTS

- Deploying technical and financial capacity
- Integrated teams commercialising and developing discoveries
- Low risk, low cost, near field development and appraisal

ASSETS

- Kraken

- Access through smaller companies

GROWING ENQUEST'S ASSET BASE

EnQuest's principal UK assets at the end of 2014 were its interests in the producing operated oil fields Heather/Broom, Thistle/Deveron, West Don, Don Southwest, Conrie, Kittiwake, Goosander, Gadwall, Grouse, and Mallard along with the producing non-operated Alba oil field, also in the Alma/Galia, Kraken and Ythan developments, with further development opportunities in the Scolty/Crathes and Avalon discoveries.

In early 2014, EnQuest was awarded a licence in the Don North East area, within which Area 24 was subsequently renamed Ythan.

At the end of 2014, EnQuest had working interests in 34 UK production licences, covering 45 blocks or part blocks, and was the operator of 29 of these licences. Including the 28th round awards, awarded in Q1 2015, the totals increase to 38 licences and 54 blocks or part blocks, of which EnQuest operates 33 licences.

During 2014, EnQuest continued to expand its position in maturing hydrocarbon basins outside the UK North Sea.

In Q2 2014, EnQuest secured a 70% interest in a small field development project with PETRONAS, for the Tanjong Baram field offshore Sarawak. Also in Q2 EnQuest completed the acquisition of a 50% interest in the Seligi oil field, once the largest producing oil field in peninsular Malaysia, and of an interest in the nearby PM8 Production Sharing Contract ('PSC'). In Q1 2015, EnQuest Norge AS was awarded two additional production licences in the Norwegian Sea, bringing the total to four.

BUSINESS DEVELOPMENT TRANSACTIONS

50%
Greater Kittiwake Area

Acquired a 50% working interest in the Greater Kittiwake Area producing oil field.

60%
Don North East, Ythan

In early 2014, EnQuest was awarded a licence in the Don North East Area, including the Area 23 and Area 24 discovered oil accumulations. Area 24 was renamed 'Ythan'; a Field Development Plan was successfully submitted for Ythan later in 2014.

70%
Tanjong Baram

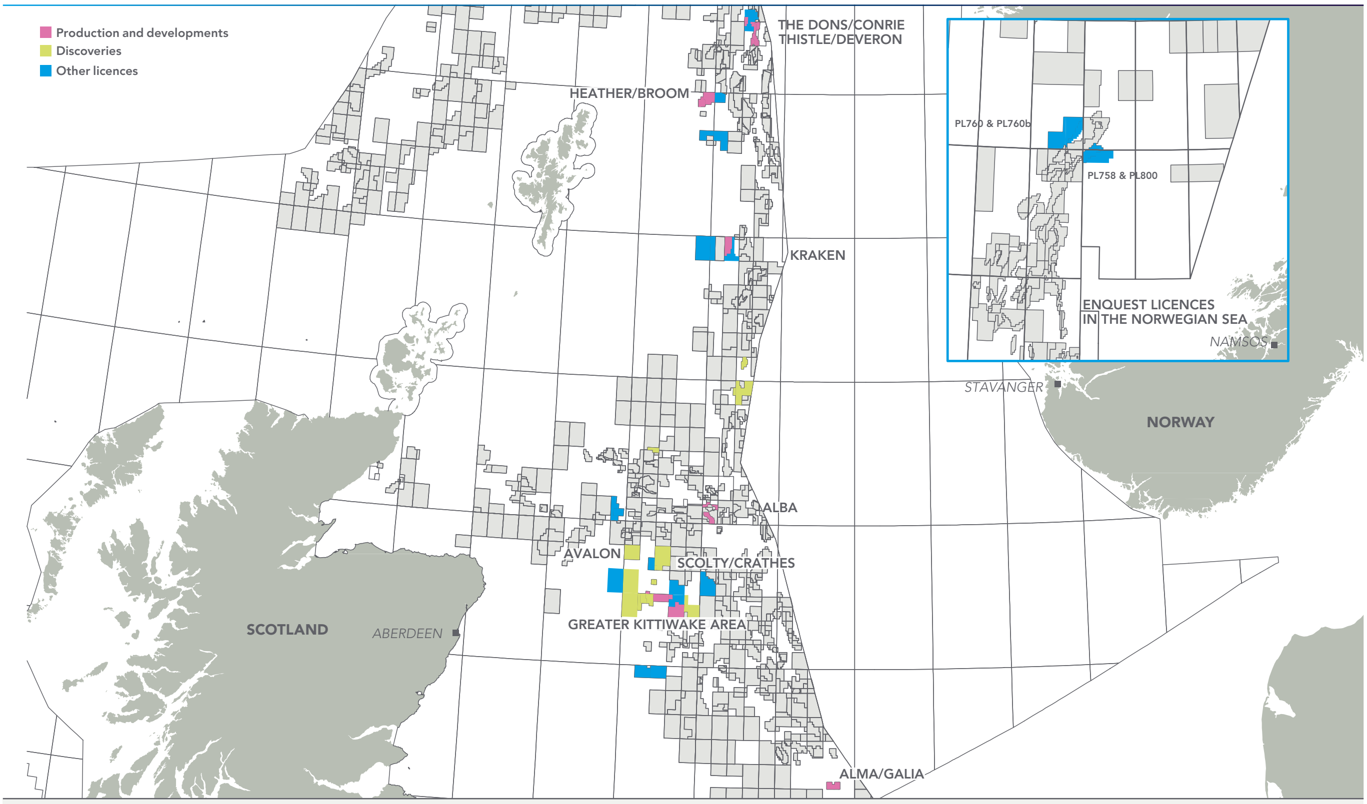
Secured a 70% interest in a small field development, Tanjong Baram, in Malaysia.

50%
PM8/Seligi

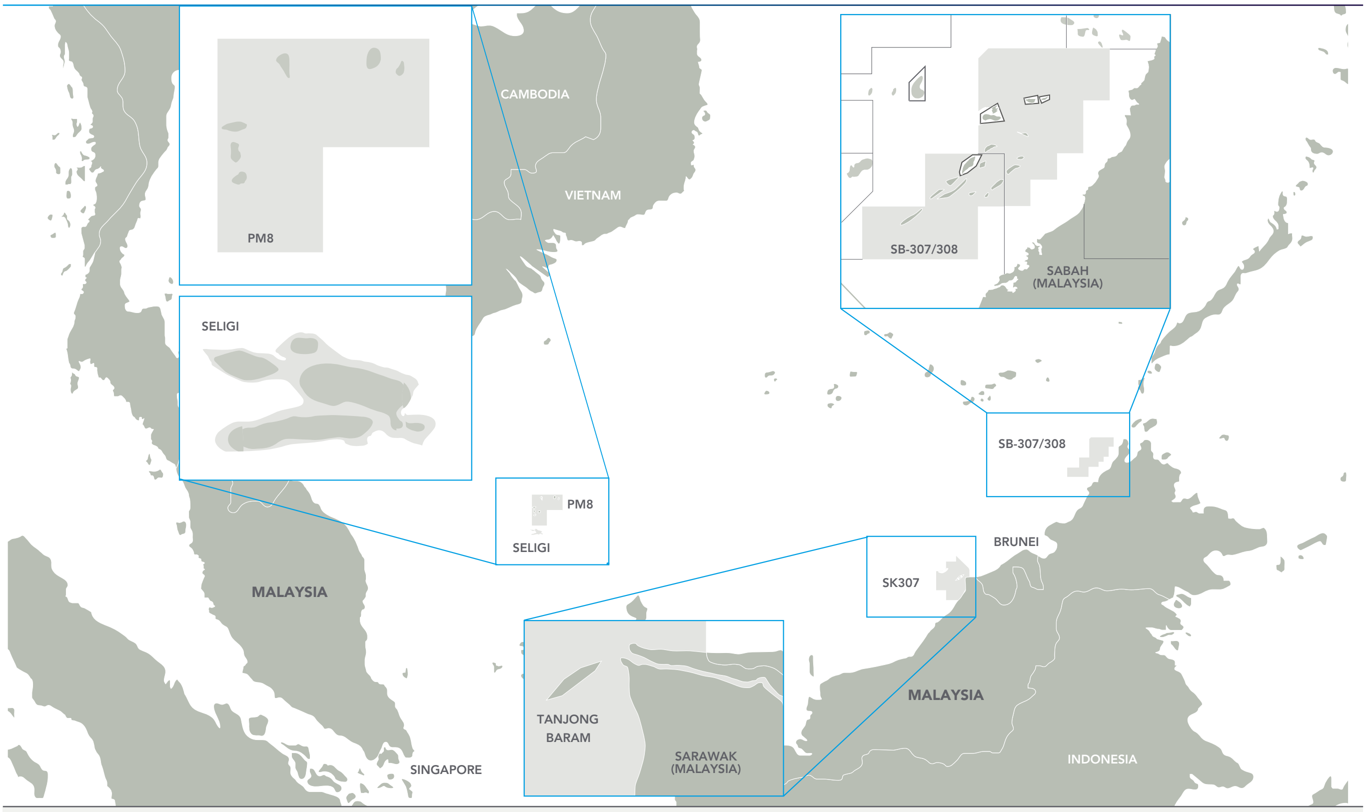
Acquired a 50% operating interest in what is now the PM8/Seligi Production Sharing Contract in Malaysia.

EnQuest is bringing substantial stepped increases in production onstream in the next two years:

- Average production in 2014: 27,895 Boepd
- First oil from Alma/Galia in mid-2015, with net peak oil of c.13,000 Boepd
- First oil from Kraken in 2017, with net peak oil of c.30,000 Boepd



North Sea



South East Asia

FOCUSED ON SKILLS & EXECUTION

EnQuest's strong production performance in 2014 was underpinned by high operational uptimes and excellent levels of production efficiency. This was achieved whilst ensuring that safe results, no harm to people and respect for the environment remained top priorities. EnQuest has an in-house focused organisational structure and it is the operator on most of its assets. This gives EnQuest a high level of direct control and an alignment of interests that EnQuest leverages to optimise the efficiency of its operational performance; using its focused skill sets to successfully execute its business plans.

ENQUEST'S PEOPLE

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

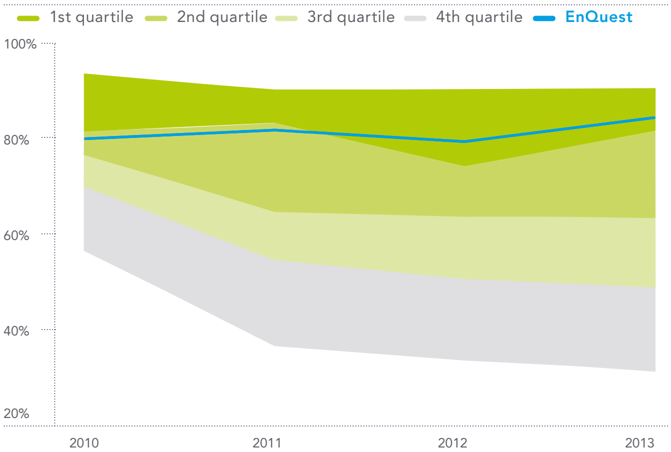
FOCUSED ON INSOURCED SKILLS AND ON EXECUTION

- 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 THE OPERATOR

EnQuest's North Sea Production Efficiency ('PE') has been outstanding. In 2013, we had a top quartile position in Oil & Gas UK's rankings, and in 2014 we consolidated our performance with a PE averaging 88% on a like for like basis.

Production efficency EnQuest in top UKCS quartile

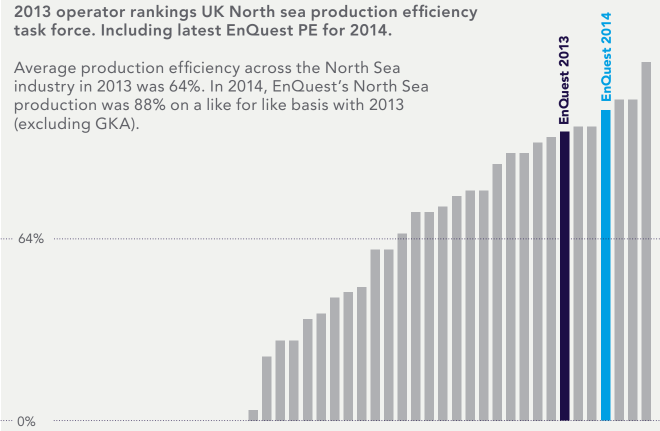


Source:
O&G UK research 2013

Further improvement in core UK production efficiency

2013 operator rankings UK North sea production efficiency task force. Including latest EnQuest PE for 2014.

Average production efficiency across the North Sea industry in 2013 was 64%. In 2014, EnQuest's North Sea production was 88% on a like for like basis with 2013 (excluding GKA).



Source:
O&G UK /DECC research, plus latest EnQuest data

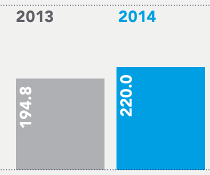
KEY PERFORMANCE INDICATORS

See Chief Executive's Report, Financial Review and Notes to the Group financial statements for additional explanation and analysis.

EnQuest delivered a strong operational performance in 2014, with production up 15%, EBITDA of $581 million and a 25 MMboe increase in reserves. EnQuest's two major development projects are both progressing well; the Alma/Galia FPSO the EnQuest Producer has now left the yard and the Alma/Galia development is on track for first oil in mid-2015, Kraken is on budget and on schedule for first oil in 2017.

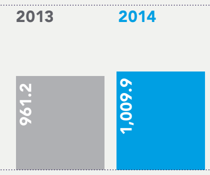
Net 2P reserves (MMboe)

+13.0%



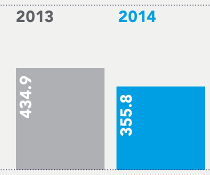
Revenue ($ million)

+5.1%



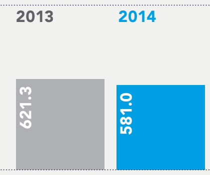
Gross profit ($ million)

-18.2%



EBITDA ($ million)

-6.5%



	2013	2014
Lost Time Incident Frequency (LTIF)	1.36	**0.00**
2P reserves (MMboe)	194.8	**220.0**
Business performance data:		
Production (Boepd)	24,222	**27,895**
Revenue ($ million)	961.2	**1,009.9**
Realised blended average oil price per barrel ($)	109.7	**100.6**
Opex per barrel (production and transportation costs) ($)	35.5	**42.1**
Gross profit excluding exceptional items ($ million)	434.9	**355.8**
Cash capex on property, plant and equipment oil and gas assets ($ million)	984.3	**1,060.3**
Reported data:		
Cash generated from operations ($ million)	562.7	**637.1**
Net debt ($ million)	(381.1)	**(932.8)**
Profit before tax excluding exceptional items ($ million)	338.0	**243.3**
Basic earnings per share (cents)	24.4	**(22.8)**
EBITDA ($ million)	621.3	**581.0**

ENQUEST VALUES

FOCUS

In pursuit of EnQuest's goals, the aspect of focus that I value the most is the ability to reach decisions on a timely basis and to use the accountabilities entrusted to me to execute those decisions.

DAVID FLETCHER, SENIOR TAX ADVISER

DRIVING RESULTS
OPERATIONS: DRIVING PERFORMANCE

THE GREATER KITTIWAKE AREA

In Q1 2014, EnQuest completed its acquisition of the Greater Kittiwake Area ('GKA') assets, fitting within EnQuest's goals of managing mature fields and of exploiting nearby discoveries and near field exploration opportunities.

EnQuest's Scolty and Crathes discoveries are within the area and stand to benefit from a potential tie-back to Kittiwake. Within weeks of completing the acquisition, EnQuest added to its potential through the successful nearby Avalon discovery.

Having assumed operatorship, EnQuest took action to enhance operational efficiency, delivering a marked rise in production, up from a gross 2,500 Boepd in early 2014, to over 5,500 Boepd gross by October. These improved efficiencies, combined with the substantially increased production volumes, resulted in operating expenditure per barrel being significantly reduced, as planned.

Central to the programme was the successful workover of the Mallard well, which resulted in that field being returned to production in September. Gas export was also brought back on line and produced water processes were optimised; all key to positively transforming GKA's performance efficiency.

Strategically, the focus is now on the development of our longer term life-of-field plan, alongside short and medium term asset management programmes, all shaping a successful future for GKA.

HIGHLIGHTS

- GKA comprises a network of fields, and offers a series of hub development opportunities
- The Goosander and Grouse wells performed well throughout 2014
- In 2014, a successful workover brought Mallard back online
- Preparatory work on the proposed tie-back to link the GKA facilities with the Scolty/Crathes discoveries progressed well during 2014
- Following the success of the Mallard workover, a Gadwall sidetrack is expected in mid-2015
- With continuing efficiency improvements, opex per barrel will be further reduced in 2015

PRODUCTION INCREASED TO OVER 5,500 BOEPD GROSS

THE KRAKEN FPSO WILL HAVE STORAGE CAPACITY IN EXCESS OF 600,000 BARRELS

DRIVING RESULTS

DEVELOPMENTS: REALISING UNTAPPED POTENTIAL

KRAKEN

The Kraken development is a 25 year life project, with approximately 140 MMboe of gross reserves.

Material advances across key areas of the project defined 2014 as a year of significant progress for EnQuest's Kraken development in the northern North Sea.

The major greenfield project has remained on schedule and on budget as work continues apace on the Floating Production, Storage and Offloading ('FPSO') vessel, subsea infrastructure and planning of the development wells.

Modification and upgrade work on the FPSO vessel that will form the field hub is progressing at the Keppel shipyard in Singapore. The facility has an extensive track record in FPSO conversion work, having already completed more than 100 such programmes.

Equally, the subsea infrastructure is taking shape, with key elements delivered and installed during the year and more scheduled for 2015.

A semi-submersible rig is under contract to begin development well drilling operations at Kraken during the second half of 2015; this is a 'harsh environment' rig and should therefore have good operational uptime.

The Kraken development team, operating in both Aberdeen and Singapore, is focused on delivering what will become EnQuest's sixth UK North Sea hub.

HIGHLIGHTS

- The Kraken development is expected to produce net peak oil of c.30,000 Boepd and is anticipated to come on stream in 2017
- Water injection and production templates for the first drill centre were installed on the seabed in 2014, with manifolds due in 2015
- The first three subsea 'Xmas trees'[1] were delivered in 2014
- Templates and manifolds for the second drill centre are scheduled for 2015 installation
- The submerged turret loading buoy – a central feature of the subsea infrastructure and mooring mechanism for the FPSO – is due in 2015

1. The set of valves, spools and fittings connected to the top of a well to direct and control the flow of formation fluids from the well.

SECURED COMBINED PM8/ SELIGI PRODUCTION SHARING CONTRACT WITH AN EXTENSION TO 2033

DRIVING RESULTS

ACQUISITIONS: IDENTIFYING FUTURE OPPORTUNITIES FOR GROWTH

PM8/SELIGI, MALAYSIA

In Q2 2014, EnQuest announced the acquisition of an operated interest in the PM8 PSC fields and the Seligi oil field from ExxonMobil. EnQuest also signed an agreement with PETRONAS to extend the term of the production sharing contract, comprising PM8 PSC assets and the Seligi oil field, to 2033 ('PM8 PSC Extension'). The Seligi oil field was once the largest oil field in Peninsular Malaysia.

This acquisition builds on EnQuest's core skill of enhancing value from maturing fields and provides EnQuest a platform to pursue further prospective development opportunities in the longer term. This expansion of EnQuest's Malaysian operation also represents a further deepening of our relationship with PETRONAS, following the signing of the Tanjong Baram risk service contract.

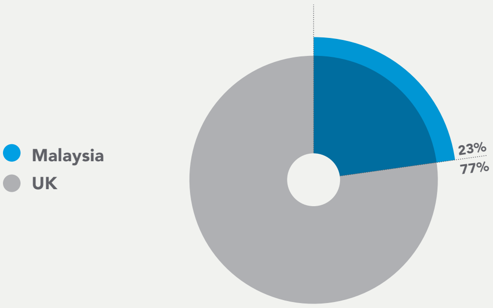
EnQuest formally assumed operatorship of PM8/Seligi at the end of 2014, following a swift and efficient transition process.

PM8/Seligi has already materially increased EnQuest's overall production levels; by Q4 2014, these new fields were producing approximately 15,000 Boepd, gross. EnQuest is focused on an ongoing programme to target efficiency improvements and to maximise recovery from the fields.

HIGHLIGHTS

- Seligi comprises a main production platform, Seligi-A, and seven minimum facility satellite platforms
- PM8 is made up of a network of six developed fields, serviced by four minimum facility platforms linked back to Seligi-A

Average EnQuest Production H2 2014



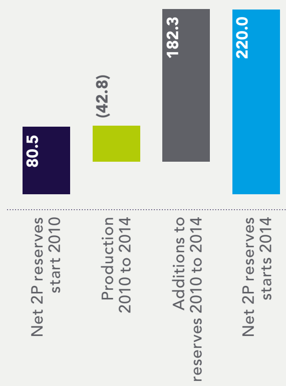
CHAIRMAN'S STATEMENT

During 2014, EnQuest delivered a strong operational performance and reacted swiftly to the oil price declines witnessed in the second half of the year.

Dr James Buckee
Chairman

Five years of strong reserves growth

- 514% reserve replacement ratio
- Reserve life over 20 years



ENQUEST VALUES
RESPECT

Respect is key to everything that EnQuest does, both personally and professionally. It represents who we are, how we operate within the business, and how we interact with our external business partners and associates. Respect for safety, personnel and the environment is critical to how we are perceived by our competitors as the Company strives to succeed to be the best at what we do.
JULIA WALKER, EXECUTIVE ASSISTANT

EnQuest's performance
During 2014, EnQuest delivered a strong operational performance and reacted swiftly to the oil price declines witnessed in the second half of the year. The Company has a significant capital programme associated with its Kraken investment in 2015 and 2016 and looks forward to 2017, when Kraken is planned to be onstream.

Despite the recent downturn in the oil price, since EnQuest's inception five years ago, we have grown our original net 2P reserve base by over 173%, representing a replacement ratio of 514%. Consequently, EnQuest started 2015, with a reserve life of over 20 years. During these first five years, EnQuest generated c.$2.7 billion in cash flow from operations.

Industry background
From the outset, EnQuest has worked closely with the industry and the UK Government to bring about structural changes to the business environment in the North Sea, which we believe are essential to the future of the industry. The North Sea needs a stable and incentivising fiscal regime with regulation that encourages new development activity and promotes greater collaboration between operators, leading to a lower cost base. The steep decline in oil prices during the latter part of 2014 has acted as a catalyst for action.

EnQuest's response to lower oil prices
In response to declining oil prices, EnQuest took action to protect against further oil price falls and to maximise cost reduction. EnQuest accelerated its oil price hedging programme and worked closely with the supply chain to reduce operating and capital expenditure. While we remain confident about the long term prospects for the oil price, we are managing our business so as to allow us to withstand a more prolonged period of lower oil prices.

EnQuest's funding facilities include a $1.2 billion committed credit facility, with a $500 million accordion. EnQuest renegotiated covenants with its lending banks and these have been relaxed until mid-2017. Ongoing continued compliance with its covenants is a priority for 2015 and beyond. With its credit facility and a long dated debt maturity profile, the financial position of the Company remains resilient.

At the same time, EnQuest delivered very good operational performance in 2014, with strong production growth and industry leading levels of production efficiency. The Alma/Galia development project recovered from delays in the first half of 2014, and since then it has remained on schedule. Since its sanction at the end of 2013, the Kraken development project has consistently been on schedule and on budget.

The EnQuest Board
The composition of the Board remained constant during 2014. The Directors assess and evolve EnQuest's strategy, taking key decisions on its implementation. In 2014 these included the acquisition of EnQuest's first producing assets outside the North Sea, and in 2015 the Board also took measured actions in light of the lower oil price environment, in terms of setting the new business plans for 2015 and beyond.

EnQuest's results are a reflection of the quality 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
In 2014, EnQuest complied in full with the 2012 UK Corporate Governance Code. In September 2014, the Financial Reporting Council published the revised 2014 UK Corporate Governance Code, compliance with which will continue to be reported annually by EnQuest. We are well advanced in implementing our responses to the changes brought in by the 2014 UK Corporate Governance Code.

Corporate governance for EnQuest is not merely following a set of rules, but embedding a framework which supports our core values and, provides structure for how we are organised, how we manage risk, how we behave and how we provide assurance in respect of performance. In 2014, the Board strengthened a number of areas of corporate governance including the risk management framework and corporate responsibility. We work to ensure that all elements of corporate governance are part of our corporate culture and we have developed an environment which nurtures, develops and maintains our approach.

The Board reviewed the Company's corporate responsibility model. We ensured that we have strong relevant policies in place, covering the areas of Health and Safety, People, Business Environment, Business Conduct and Community. We will be working towards monitoring the impact and progress of these areas in the coming period. Our UK Health and Safety policy has now also been implemented in our international projects in Malaysia, with supplemental policies as required by local legislation.

Dividend
The Company has not declared or paid any dividends since incorporation in January 2010 and does not intend 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
We are managing our business to withstand a prolonged period of low oil prices and I am confident that EnQuest will emerge from this down cycle in even better shape to implement our strategy successfully. The life of the Alma/Galia field is over ten years and the Kraken field has a twenty five year life, this is a long term business.

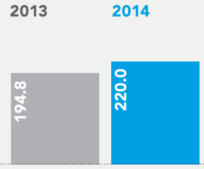
CHIEF EXECUTIVE'S REPORT

EnQuest's core competency in controlling costs and managing operations efficiently is particularly important in the current climate of low oil prices.

Amjad Bseisu
Chief Executive

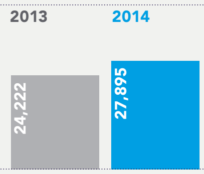
Reserves (MMboe)

+13.0%



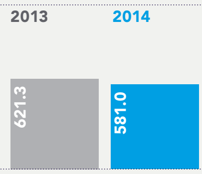
Production (Boepd)

+15.2%



EBITDA ($ million)

-6.5%



EnQuest's performance, business model and strategy

EnQuest's core competency in controlling costs and managing operations efficiently is particularly important in the current climate of low oil prices. Despite challenging macro conditions, EnQuest delivered a strong operational performance in 2014, with production of 27,895 Boepd, whilst EBITDA was $581 million. 2014 was a record year for production and was up 15% on the prior year. The acquisition of the Seligi and PM8 oil fields in Malaysia provided EnQuest with its first contribution from outside the North Sea, countering the impact of delay to the Alma/Galia project.

EnQuest delivered an increase in its net 2P reserve base, up by 25.2 MMboe to 220.0 MMboe, reflecting a reserve replacement ratio of approximately 350% for 2014. The increase resulted partly from positive revisions to reserve estimates from infill drilling and an improved knowledge of the reservoirs. Approval of the Ythan discovery for development, and the promotion of the Scolty and Crathes discoveries following development planning, also contributed to the increase in EnQuest's reserve base. Further additions arose from 2014 acquisitions, including interests in the Greater Kittiwake Area ('GKA') and PM8/Seligi in Malaysia.

During the latter part of 2014, EnQuest acted quickly to counter the impact of a rapid decline in oil prices, increasing the hedging programme and significantly cutting 2015 cash capital expenditure to c.$600 million, with reductions from both developments and existing fields. We are targeting a reduction in EnQuest's operating cost per barrel of c.10%, from $42.1/boe in 2014 to an average of c.$38/boe in 2015. This is being achieved through lower cost barrels coming onstream, reducing opex per barrel in newly acquired fields, and through substantial direct cost savings. We are targeting cost savings across the business, through the supply chain and by improving efficiencies in our operations, through maximising production and minimising waste. We have cut limited company contractor rates and reduced our headcount in the UK and logistics costs are down significantly. This agile focused approach enabled EnQuest to hold unit operating costs flat during its first five years, while average costs in the North Sea doubled. EnQuest continues to work with the supply chain and contractors to achieve further cost savings and optimisation.

Given the low oil price environment, EnQuest negotiated a relaxation of covenants to its revolving credit facility until mid-2017. This continued commitment from our lenders recognises the cash flow generation of EnQuest's business and in particular the expected increases in cash flow from the Alma/Galia and Kraken developments.

EnQuest has achieved a 173% increase in net oil reserves over the last five years, having converted more than half of the original reserves into flowing barrels. Despite the reductions to the investment programme, EnQuest remains on course to achieve annual net production from the UK North Sea of 50,000 Boepd, with six operated producing hubs in the UK. In Malaysia, PM8/Seligi has the potential to increase international production significantly over the coming years.

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

In 2014, EnQuest met its commitment to deliver safe results, with the best HSE performance since formation in April 2010. EnQuest achieved a Lost-Time Incident Frequency Rate ('LTIFR') of zero and a Recordable Incident Frequency Rate ('RIFR') below the industry average. There were no High Potential Incidents ('HIPO's): the last recorded HIPO was in April 2013.

In addition, the producing northern North Sea assets achieved a total of 11 years without a Lost-Time Incident ('LTI') and 11 million man hours LTI-free. Health and Safety Executive inspections were performed on all the assets, and no major issues were identified. These results are a testament to the focus given to HSE&A.

North Sea operations

In 2014, EnQuest delivered good production of 24,436 Boepd in the UK, marginally ahead of the 24,222 Boepd in 2013. This reflects the continuing strength of field reservoir performance and high production efficiency from EnQuest's existing UK assets. With production efficiency from existing assets averaging 88% in 2014, EnQuest is likely to have further improved its position in the Oil & Gas UK rankings.

EnQuest delivered 12 wells in 2014, including successful wells at Heather and Don South West. At the Dons, the Ythan development in Don North East, moved from licence award, through Field Development Plan submission and approval, to spudding of the first well in less than 12 months. The Thistle life extension project continued to improve production levels in 2014. Thistle produced over three million barrels of oil for the first time since 1997. The Greater Kittiwake Area ('GKA') assets were acquired early in 2014. Subsequent to the acquisition of GKA, the discovery of Avalon further enhanced the potential of GKA.

ENQUEST VALUES

PASSION

With the right level of passion people remain motivated and energised to perform at the highest level. I am passionate about my performance, continuously challenging the way I, and the organisation do things. This is important when working at EnQuest. Passionate people work hard to chase the next result, and will go that extra yard to deliver.

DEREK ELLINGTON, HEATHER OPERATIONS MANAGER

CHIEF EXECUTIVE'S REPORT CONTINUED

North Sea developments

Alma/Galia

During 2014, both the subsea and the drilling programmes for the Alma/Galia project were delivered on time. By the end of the year, five production wells were fully completed and ready for tie-in and the subsea infrastructure was in place. However, delays to the programme for the Floating Production, Storage and Offloading vessel ('FPSO', the 'EnQuest Producer') had moved the earliest possible 'sailaway' date into the winter months. This would have significantly increased the operational risks and costs of waiting for appropriate weather conditions. Sailaway and first oil were therefore rescheduled to spring 2015 and to mid-2015 respectively. Since August 2014, the FPSO construction has remained on track and following first oil, initial net peak production of c.13,000 Boepd is expected, significantly increasing EnQuest's production profile. Plateau unit operating cost is expected to be approximately $15/bbl to $20/bbl.

Delays and cost increases for the EnQuest Producer initially stemmed from changes to the implementation of safety codes, such as for moorings and also other regulatory imposed scope changes. The extent of work required on the vessel was also greater than anticipated.

The FPSO is essentially now a new vessel with all the topsides having been replaced. Ownership of the vessel at first oil provides EnQuest with a range of additional funding options, such as a potential sale and leaseback.

EnQuest's net 2P reserves for Alma/Galia increased slightly to c.26 MMboe at the start of 2015, following the positive results from the wells which have been drilled.

Kraken

During 2014, the Kraken project progressed well, on budget and on schedule.

In Q2 2014, the FPSO donor vessel arrived at the shipyard in Singapore and its conversion scope commenced. In H2 2014, EnQuest commenced installation of the subsea structures at the first drill centre, where the initial wells for the development will be drilled. Detailed engineering, procurement and manufacture for all equipment relating to wells, subsea infrastructure and the FPSO continued throughout 2014.

With the Kraken project on budget, its anticipated net capital expenditure estimate is unchanged at $1.4 billion to first oil. The full cycle breakeven cost for the project continues to be in the region of $55/bbl. In addition, with $512 million invested to the end of 2014, the forward economics of the 25 year life project are strong with an internal rate of return in the mid thirties per cent, net to EnQuest using the forward curve in early March 2015.

North Sea acquisitions

In Q1 2014, EnQuest applied for and was offered an 'out of round' licence in the Don North East area ('Don NE') for blocks 211/18e and 211/19c. This included the Area 23 and Area 24 discovered oil accumulations and an undrilled extension to the Don NE field. Following the award of this licence a Field Development Plan for 'Ythan' was submitted and approved.

In Q1 2014, EnQuest announced the acquisition of the Greater Kittiwake Area assets. The acquisition fits within the goals of managing mature fields and of exploiting nearby discoveries and near field exploration opportunities. The Scolty and Crathes discoveries are within the GKA area, with potential to benefit from a tie-back to Kittiwake. The combination of these opportunities also facilitates the extension of the GKA field life itself.

The base consideration for the acquisition was $39.9 million, which following working capital and other adjustments resulted in the payment of a cash consideration of $30.3 million. When the acquisition was announced, the additional net 2P reserves were recorded as 4.7 MMboe as at the economic date of 1 January 2013. Following GKA post acquisition production of a net 0.5 million barrels of oil in 2014, EnQuest recorded net 2P reserves of c.8 MMbbls in GKA as at the end of 2014. Reasons for the net increase included not only the addition of Scolty/Crathes, but also improved performance and the lengthening of the field life.

In Q4 2014, EnQuest was offered and accepted eight licences as part of the UK 28th North Sea licensing round.

ENQUEST VALUES

EMPOWERMENT

Empowerment means that I work within a culture that gives me the authority to do my job to the best of my ability, with full understanding of EnQuest's vision and drivers. Empowerment is important to EnQuest as it promotes autonomy and nimbleness within the Company, gives us an edge on our competitors, permits rapid response to the ever changing circumstances we experience and allows individuals to develop and grow.

LYNNE MACPHERSON, GREATER KITTIWAKE AREA MANAGER

International

2014 was a transformational year for EnQuest's international business, particularly with the acquisition of the PM8/Seligi fields, delivering our first production from outside the North Sea.

In Q2 2014, EnQuest announced the signing of a small field risk service contract with Petroliam Nasional Berhad ('Petronas'), the national oil company for Malaysia, for the development and production of petroleum from the Tanjong Baram field offshore Sarawak, Malaysia. Start-up is expected in mid-2015. Separately, the Kitabu prospect, was drilled in Q1 2014, however the well failed to encounter hydrocarbons; this was in the SB307/SB308 contract area where EnQuest has a non-operated interest.

Later in Q2 2014, EnQuest announced a significant expansion of its footprint in Malaysia, through the acquisition of the PM8 Production Sharing Contract ('PSC') fields and the Seligi oil field, from ExxonMobil Exploration and Production Malaysia Inc; both EnQuest and Petronas Carigali Sdn Bhd to hold participating interests. EnQuest also signed an agreement with Petronas to extend the term of the PSC, comprising PM8 PSC assets and the Seligi oil field to 2033 (formally 'PM8 PSC (Extension)' or simply 'PM8/Seligi'). This acquisition has a good strategic fit and offers considerable potential for EnQuest to use its core skills in enhancing value from maturing fields.

The base consideration for the acquisition was $67.0 million, which following interim period adjustments resulted in the payment of a cash consideration of $24.7 million. Following strong production of a net 0.8 million barrels of oil in 2014, EnQuest recorded net 2P reserves of c.15 MMbbls in PM8/Seligi as at the end of 2014. In December 2014, following a short transition period, EnQuest took over operatorship and is working on an ongoing programme to target further efficiency improvements and to maximise recovery. Production in the last six months of 2014 was approximately 7,000 Boepd net, on a working interest basis and this continued to improve into 2015.

In February 2015, EnQuest announced that it had exited from its small investment in Tunisia, retention of which had been subject to conditions which were not satisfied within the relevant timeframe. Consideration of $22 million had been kept in escrow and was duly returned to EnQuest.

In 2014, EnQuest was offered and accepted 2 licences as part of the 2014 Awards in Pre-Defined Areas ('APA') Norwegian Licensing Round.

Financial performance

In 2014, EnQuest generated EBITDA of $581 million, benefiting from further action taken on costs in H2 2014 and also from its full year currency hedging programme.

Following the delays to the Alma/Galia project in early 2014, EnQuest's net capex cost for the first phase of the project is expected to be c.$55/bbl.

EnQuest's funding facilities include c.$900 million of bonds and a committed credit facility of $1.2 billion plus an accordion of up to a further $500 million. 2014 year end net debt was $933 million, with $218 million drawn on the credit facility utilisation before taking into account cash balances.

Total full year 2014 unit operating costs of $42.1 per barrel reflected the initial benefit of cost reduction initiatives taken in H2 2014 and the lower exchange rate and generally a year of good operational performance and strong control of direct costs.

There were non-cash post-tax impairments of $335.3 million, due to lower near term oil price assumptions.

2015 year to date

EnQuest has performed well at the start of 2015; production efficiency has again been very strong on our North Sea assets and our focus on operational efficiencies in PM8/Seligi has been delivering excellent daily production.

The EnQuest Producer programme is proceeding according to schedule in Q1 2015; the boilers were ignited and fired, notice was given to moor and hook up the vessel in the field. The FPSO recently left the yard in Newcastle, and has successfully completed marine performance trials in deeper water nearby, on schedule for first oil from Alma/Galia in the middle of this year.

The drilling of an appraisal well in Kraken West has confirmed the presence of oil, with potential for upside. Further evaluation is ongoing.

Hedging for 2015 was already in place and hedging is now also in place for 2016, currently with 10 million barrels hedged through puts averaging c.$68 per barrel in 2016.

Outlook for the rest of 2015 and beyond

EnQuest is focused on performance and execution. Safety will always be a priority and we are focused on operational efficiency and further reducing costs. Alma/Galia is on track for first production in the middle of the year. Production for 2015 is expected to be an average of between 33,000 Boepd and 36,000 Boepd, a 24% increase over 2014 at the mid-point of the range. With unit operating expenditure of approximately $15/bbl to $20/bbl during the period of initial net peak volumes, Alma/Galia will also contribute towards a reduction in EnQuest's 2015 unit operating costs of c.10% over 2014.

2015 priorities also include delivering the $600 million cash capital expenditure programme, focused on the Kraken development project. The drilling programme has been rationalised to existing commitments and to projects with high margin barrels, including the drilling of three low cost near field production wells on Thistle, a Gadwall sidetrack and bringing Alma/Galia onstream.

In Malaysia, the 2015 work programme on PM8/Seligi will be focused on well intervention activities and improving the field infrastructure. For Tanjong Baram, the implementation of our development plan is well underway, with first oil targeted by the end of H1 2015.

In Q1 2015, covenants of the credit facility were relaxed giving significant flexibility in a lower oil price environment. EnQuest's focus in 2015 will be on near term profitable cash flow and optimising the long term value of the business. If the low oil price environment continues, then beyond existing development commitments, capital expenditure will continue to be rationalised.

The speed and size of changes made to the business in response to deteriorating energy market conditions was achieved through the agility and focus inherent in EnQuest's business model. EnQuest delivers material improvements to mature fields and we will continue doing so in 2015 and beyond.

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. Accordingly, the Board has established a risk management framework to enhance effective risk management within the following overarching statement of risk appetite approved by the Board:

- We aim to deliver consistently above median investment performance
- We will manage the investment portfolio against agreed key performance indicators
- We seek to avoid reputational risk by ensuring that our operational processes and practices reduce the potential for error as far as practical
- We seek to embed a risk culture within our organisation which does not encourage excessive risk taking activities and is in line with overall risk appetite
- We seek to manage operational risk by means of a variety of controls to prevent or mitigate occurrence
- We set clear tolerances for all material operational risks to minimise overall operational losses, with zero tolerance for criminal conduct

A Risk Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of its members. The Group Risk Register, along with an assurance mapping exercise and a risk report (focused on the most critical risks and emerging and changing risk profiles), is periodically reviewed by the Board (with senior management), to ensure that key issues are being adequately identified and actively managed. In addition, a system of risk reviews has been established to provide oversight in respect of prospective significant commitments.

Key business risks
The Group's principal risks are those which could prevent the business from executing its strategy and creating value for shareholders or lead to a significant loss of reputation.

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 (2013 Medium) **Likelihood** – Low (2013 Low) There has been no material change in the potential impact or likelihood and the Group's overall record on HSE remains robust.	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 continual 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 and Department of Energy & Climate Change. EnQuest's HSE&A Policy and Principles are now fully integrated across our operated sites and this has enabled an increased focus on Health, Safety and the Environment. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.
Production The Group's production is critical to its success and is subject to a variety of risks including subsurface uncertainties, operating in a mature field environment and potential for significant unexpected shutdowns and unplanned expenditure to occur (particularly 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 in the UKCS is mostly dependent on the Sullom Voe Terminal. Longer term production is threatened if low oil prices bring forward decommissioning timelines. **Potential impact** – High (2013 High) **Likelihood** – Low (2013 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. Production efficiency is continually monitored and identified remedial and improvement opportunities, undertaken as required. A continual, rigorous cost focus is also maintained. Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal reviews. The Group's forecasts of production are risked to reflect appropriate production 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. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide cost savings.

RISK	MITIGATION
Project execution The Group's success will be dependent upon bringing new developments, such as Alma/Galia (which was not delivered to schedule or budget) 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 (2013 High) **Likelihood** – Medium (2013 Medium) 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, as at 13 March 2015. However, It should be noted that project execution risk on Alma/Galia is diminishing as the project enters its final stages, with Hook-up and Commissioning (HUC) of the FPSO now underway (as at 13 March 2015). All wells required for first oil are already drilled, completed and tied in.	The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place to ensure that deadlines are met, costs are controlled and that design concepts and Field Development Plans are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication. The Group also engages third party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. EnQuest ensures that responsibility for delivering time-critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations. The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production is scheduled for 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 front end engineering and design (FEED) studies were carried out for the FPSO and subsea integrated equipment. The first two subsea template structures were successfully installed on schedule in September 2014. In order to reduce project cost risk, more than 75% of the capital expenditure has been defined by actual tendering and placing of contracts. The FPSO involves 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 (2013 High) **Likelihood** – Medium (2013 Low) The likelihood has increased as oil price volatility limits business development activity. Low oil prices can potentially affect development of contingent and prospective resources and can also affect reserve certifications.	The Group puts a strong emphasis on subsurface analysis and employs industry leading professionals. The Group continues to recruit in a variety of technical positions which enables it to manage existing assets and evaluate the acquisition of new assets and licences. All analysis is subject to internal and, where appropriate, external review. All reserves are currently externally audited by a Competent Person. In addition, EnQuest has active business development teams both in the UK and internationally developing a range of opportunities and liaising with vendors/government.
Financial Inability to fund financial commitments. The Group's revolving credit facility and retail bond contain certain financial covenants (each containing covenants based on the ratio of net indebtedness to EBITDA and finance charges to EBITDA) and in the case of the revolving credit facility, a requirement for liquidity testing. Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's ability to comply with relevant covenants. **Potential impact** – High (2013 High) **Likelihood** – Medium (2013 Medium) Low oil prices have impacted cash flow adversely, increasing the potential impact and likelihood. However, it is considered that the risk is being appropriately mitigated and remains controlled. Further information is contained in the Going Concern paragraph on pages 42 and 43 of the Financial Review.	During the year, the Group issued a $650m High Yield Bond which can be used to fund its development activities, and agreed a commercial loan of £31.8m in order to fund its Aberdeen office development. 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. Post year end, the Group renegotiated certain financial covenants under its revolving credit facility to provide greater flexibility for its capital investment programme. The net debt / EBITDA covenant has been increased to five times and the ratio of financial charges to EBITDA is reduced to three times, both until mid-2017. Ongoing compliance with the financial covenants under all of the Group's lending arrangements (including the $650m High Yield Bonds and £155m Retail Bonds) is actively monitored and reviewed. The Group is maintaining a focus on costs through supplier renegotiations, cost-cutting and rationalisation. Where costs are incurred by external service providers, e.g. at Sullom Voe Terminal, the Group actively challenges operating costs.
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. Industrial action across the sector could also impact on the operations of the Group. **Potential impact** – Low (2013 Medium) **Likelihood** – Low (2013 Low) There has been a reduction in the potential impact due to low oil prices impacting the buoyancy of the employment market.	The Group has established a competent employee base to execute its principal activities. In addition to this, the Group, which seeks to maintain good relationships with its employees and contractor companies, regularly monitors the employment market to provide remuneration packages, bonus plans and long term share-based incentive plans that incentivise performance and long term commitment from our employees to the Group. EnQuest is undertaking a number of human resource initiatives. 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. 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 continue to be placed on this.

BUSINESS REVIEW

RISKS AND UNCERTAINTIES CONTINUED

RISK	MITIGATION
Reputation The reputational and commercial exposures to a major offshore incident are significant. **Potential impact** – High (2013 High) **Likelihood** – Low (2013 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 adversely affects the Group's operations and financial condition. **Potential impact** – High (2013 High) **Likelihood** – High (2013 Low) The potential likelihood has increased due to declining and volatile oil prices.	This risk is being mitigated by a number of measures including hedging production, renegotiating supplier contracts and lending arrangements and reducing costs and commitments. The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of its production. The Group has hedged significant amounts of its production in 2015 and 2016 using puts and calls. This ensures that the Group will receive a minimum oil price for its production. In order to develop its resources, the Group needs to be able to fund 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 whilst remaining within the limits set by its revolving credit facility. The Group has established an in-house trading and marketing function to enable it to enhance its ability to mitigate the exposure to volatility in oil prices.
Political and fiscal Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy and potentially impact revenue and future developments. **Potential impact** – High (2013 High) **Likelihood** – Medium (2013 Medium) Although the referendum on Scottish independence has taken place, there is a general election in May 2015. Whilst it appears unlikely that a new UK government will unexpectedly burden the industry in the current low oil price environment, the outcome of the general election is still uncertain.	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. All business development or investment activities recognise potential tax implications and the Group maintains relevant internal tax expertise. At a more operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.
Joint venture partners Failure by joint venture parties to fund their obligations. Dependence on other parties where the Group is not the operator. **Potential impact** – Medium (2013 Medium) **Likelihood** – Medium (2013 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 and rigorous and continual assessment of the financial situation of partners. The Group generally prefers to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets.

RISK	MITIGATION
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 (2013 Medium) **Likelihood –** Medium (2013 Low) There has been an increase in the perceived potential likelihood due to recent emergence of new competitors for acquisitions (e.g. private equity) and the increased leverage of the Group.	The Group endeavours to have a resilient balance sheet, which puts it in a 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 and execute potential acquisition opportunities. The Group maintains good relations with oil and gas service providers and constantly keeps the market under review.
Portfolio Concentration The Group's assets are concentrated in the UK North Sea around a limited number of infrastructure hubs and existing production (which is principally only oil) is from mature fields. This amplifies exposure to key infrastructure, political/fiscal changes and oil price movements. **Potential impact –** Medium (2013 Medium) **Likelihood –** Medium (2013 Low)	This risk is mitigated in part through acquisitions. For all acquisitions, the Group uses a number of business development resources to evaluate and transact acquisitions in a commercially sensitive matter. This includes performing extensive due diligence (using in-house and external personnel) and actively involving executive management in reviewing commercial, technical and other business risks together with mitigation measures. During 2014, EnQuest acquired the PM8/Seligi producing asset in Malaysia as well as the Greater Kittiwake Area. The Group also constantly keeps its portfolio under rigorous review and accordingly, actively considers the potential for making disposals, executing development projects (Alma/Galia, Kraken), making international acquisitions and expanding hubs.
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 (2013 Medium) **Likelihood –** Medium (2013 Low) The expanded international business has increased the likelihood of the overall risk. In addition, oil price uncertainty has increased the potential impact and likelihood of a slowdown in international growth plans.	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, executive management reviews commercial, technical and other business risks together with mitigation and how risks can be managed by the business on an ongoing basis. EnQuest looks to employ suitably qualified host country staff and work with good quality local advisers to ensure it complies 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 financial control, cost management, 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

ENQUEST THE OPERATOR NORTH SEA OPERATIONS

TOP QUARTILE PRODUCTION EFFICIENCY

Overview

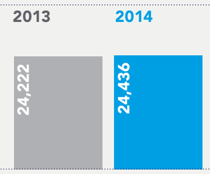
In 2014, EnQuest had its best Health, Safety & Environment ('HSE') performance since it was formed in April 2010, with its focus on HSE culture and performance.

Good HSE performance drives good business performance, and the Production Efficiency ('PE') has been excellent. In 2014, EnQuest achieved an overall UK production efficiency of 88% excluding the new GKA assets, or of 86% including GKA. This, together with the delivery of successful wells at Heather and Don South West, enabled production of 24,436 Boepd in the North Sea in 2014.

Looking forward to 2015, with Alma/Galia on track for first oil in the middle of the year, the North Sea operations team is ready to take control of the development as it is handed over by the projects team. With net peak production of c.13,000 Boepd, Alma/Galia is set to increase daily UK production levels by over 50%. The Gadwall sidetrack and other barrel adding activities will continue on the existing hubs. Work to finalise the best development solution for Scolty/Crathes will also continue.

Neil McCulloch
President, North Sea

UK North Sea Production (Boepd)



UK OPERATED PRODUCING FIELDS
THISTLE/DEVERON
HEATHER/BROOM
THE DON FIELDS
GREATER KITTIWAKE AREA
ALMA/GALIA DUE ONSTREAM MID-2015

Operations summary

On Heather, the return to drilling programme was completed in Q1 and drilling operations have been continuous throughout the year with production from the platform peaking at more than 7,000 Boepd (gross) in November, the first time such levels have been reached since January 2013. Heather achieved high levels of operational uptime, with an exceptional run of 136 continuous days without a production trip, due to the focus of the operations teams onshore and offshore.

Substantial progress has also been made on Kittiwake. The return of the Mallard field to production following its workover in the summer added 3,000 Boepd, increasing overall Greater Kittiwake Area field rates to around 5,500 Boepd, less than six months after acquisition.

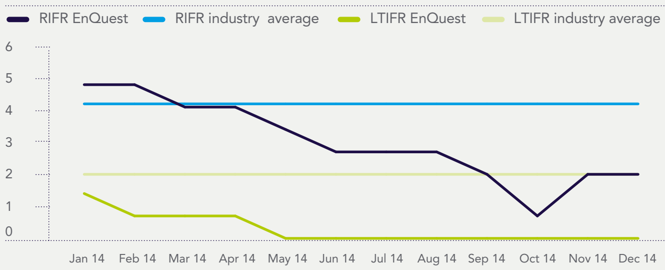
On the Don fields, high levels of water injection were achieved and the drilling of the TJ production well and the scale dissolver programme at Don Southwest were delivered. The Don North East located Ythan field has progressed from open acreage to development in six months, with the well spudded ahead of schedule.

Thistle/Deveron achieved year on year production growth of 14%. The Thistle life extension project itself made further progress in 2014 and a major industry award highlighted recognition of this project as a proven template for successfully extending the life of ageing assets.

On exploration, the Avalon well was drilled faster than scheduled and was under budget, and the Cairngorm appraisal well yielded positive initial results. In the 28th licensing round EnQuest was awarded acreage it had applied for around its hubs.

At the end of 2014, EnQuest started the process for the return of 32% of its interests in Crawford to the previous owner, following which EnQuest will hold a 19% working interest.

Excellent HSE Performance RIFR & LTIFR*



*Recordable Incident Frequency Rate & Lost Time Injury Frequency Rate

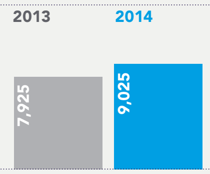
NORTH SEA OPERATIONS
THISTLE/DEVERON

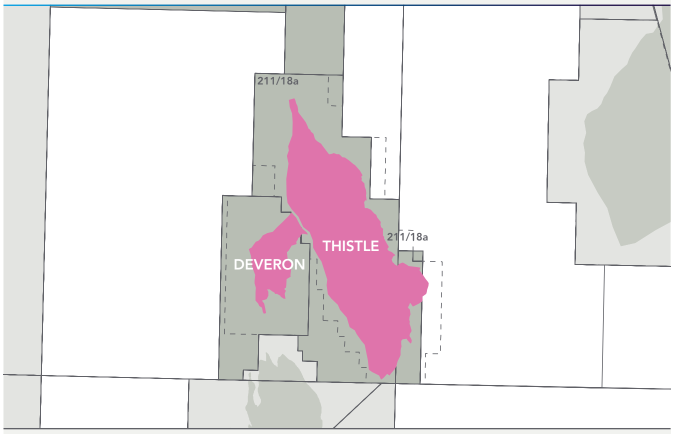
2014
Thistle delivered 14% production growth year on year, reflecting continuing benefit from new production wells brought onstream during the course of H2 2013 and the programme of investment in the Thistle life extension project.

The A57 and A60 wells continued to outperform expectations with watercut rising slower than anticipated. The commissioning of the 'D' turbine on gas and the reinstatement of the refurbished 'B' turbine gave improved power stability and improved water injection efficiency in the second half of the year. The second of two new cranes was fully installed and made operational in Q3 2014, reducing risk and operating expenditure. These elements of the life extension investment programme, alongside EnQuest's focused operating strategy, have continued to improve production efficiency at Thistle.

2015 and beyond
Drilling will restart at Thistle in 2015, with three new production wells being brought onstream, one in the middle of the year and two more in H2 2015. The Thistle life extension project will be mechanically complete during 2015, with full completion scheduled for 2016. A planned maintenance shutdown of the Sullom Voe Terminal ('SVT') will stop export from Thistle for three weeks at the end of H1 2015; EnQuest has scheduled its own maintenance programme for the same dates and will additionally use it for some extra life extension works.

Thistle/Deveron Production (Boepd)





Working interest at end 2014:
- 99%

Decommissioning liabilities:
- Remain with former owner

Fixed steel platform

Daily average net production:
- 2014: 9,025 Boepd
- 2013: 7,925 Boepd

NORTH SEA OPERATIONS
THE DON FIELDS

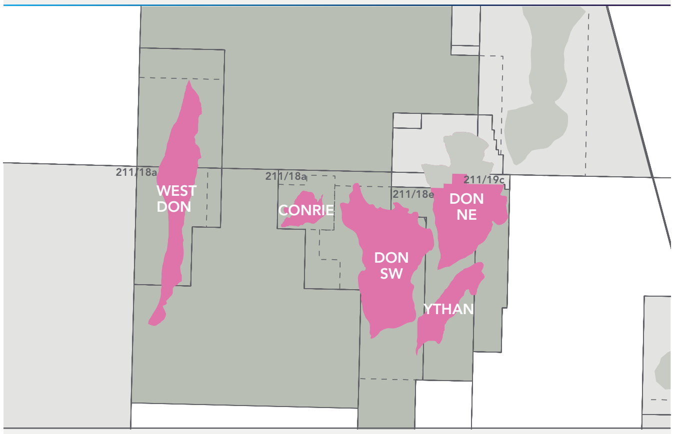
2014
Production efficiency remained very strong, at almost 90%, with high levels of water injection efficiency supporting production.

Production from Area 22 of Don Southwest was boosted by a successful acid stimulation treatment on Well S2z and by the completion in August of a new production well. The new production well, TJ, delivered initial rates in line with expectations but production chemistry issues prevented successful gas lift, and medium term rates were below expectation. The acid stimulation and scale inhibition programme also benefited Don SW wells S11 and S10Y. An upgrade of the water injection system is underway which will allow better operability and increased injection rates. On West Don, the W4 well suffered from scale build up and was shut-in in November awaiting a remedial acid treatment. Bad weather delayed this work into Q1 2015. In Q1 2014, EnQuest applied for and was offered an 'out of round' licence (P.2137) 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 North East field. The Area 24 discovery which lies adjacent to the Don Southwest field, progressed rapidly to development with the Field Development Plan, for the renamed 'Ythan' field approved by DECC and the first well spudded in November.

2015 and beyond
A phased development of the Ythan field is planned, with drilling operations on the first well continuing through Q1 2015 and first production from the field by mid-2015. The drilling of the Ythan AA injector well is planned for around the end of 2015. Following W4 scale build up in winter it was brought back online in Q1 2015 and is performing well. The SVT shutdown will similarly be used for planned EnQuest maintenance on the Northern Producer.

During 2015, the natural rates of decline will reduce production.

The Don Fields Production (Boepd)



Working interest at end 2014:
- Don Southwest, 60%
- Conrie, 60%
- West Don, 63.45%
- Don North East, 60%

Decommissioning liabilities:
- As per working interests

Floating production unit with subsea wells

Daily average net production:
- 2014: 8,835 Boepd
- 2013: 11,014 Boepd

NORTH SEA OPERATIONS

HEATHER/BROOM

2014

Production at Heather/Broom delivered 4,081 Boepd in 2014. This was down slightly after a strong performance in 2013.

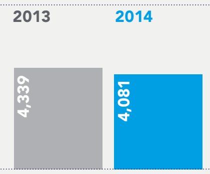
Following the completion of the 2013 rig reactivation project, rig operations in Q1 2014 commenced with a workover of the H56 well, which was brought onstream in May and has continued to deliver planned levels of oil production. This was followed by the sidetrack of shut-in well H44 as a new injection well in the B2 block. The H64 injector was brought on in July, which resulted in an increase from the nearby producer, H62Y, over the following months. Crestal producer, H47, was sidetracked in place of the planned workover, and was brought onstream in November, delivering an initial rate significantly above expectation. New producer H66, a sidetrack of suspended well H48, was being drilled at year end.

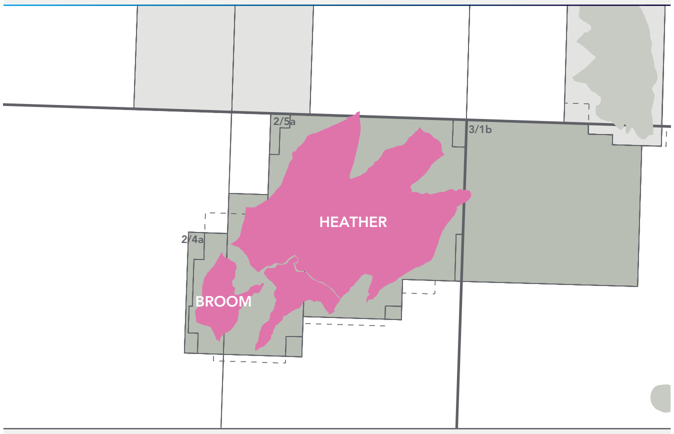
High levels of operational uptimes and a production efficiency of over 90% have been achieved and 136 consecutive days without any production interruptions were achieved in H2 2014. The Broom water injection flowline failed at the end of August; replacement options were assessed and a contract awarded for the design, procurement and installation of a replacement line.

2015 and beyond

Beyond the completion of the Heather H48 sidetrack as the H66 production well, there will be no further drilling on Heather in 2015. Broom injection will be reinstated by the middle of 2015. The SVT shutdown will similarly be used for planned EnQuest maintenance on Heather/Broom.

Heather/Broom Production (Boepd)





Working interest at end 2014:
- Heather, 100%
- Broom, 63%

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

Fixed steel platform

Daily average net production:
- 2014: 4,081 Boepd
- 2013: 4,339 Boepd

NORTH SEA OPERATIONS

GREATER KITTIWAKE AREA ('GKA')

Post acquisition programme in 2014

EnQuest took over as the operator at the end of Q1 2014 with the duty holder remaining in place. The focus was on integrating GKA and delivering an early workover programme on Mallard, which has led to a near doubling of production.

Next steps will include progressing the proposed Field Development Plan ('FDP') submission for the nearby Scolty/Crathes discoveries, with a tie-back to GKA with potential exploration of nearby prospects.

The Mallard workover was successfully completed and was brought online at the end of Q3 2014, GKA production peaked at 7,300 Boepd, shortly after. Following inspection and routine testing the existing tree was reinstalled, which reduced expenditure and allowed early production from Mallard. Since acquiring GKA, EnQuest has been applying its proven skills for managing mature fields. Improved operational efficiency and the benefit of the workover, has increased production from just over 2,500 Boepd gross in the first few months, to over 5,500 Boepd gross in October. The Mallard workover also facilitated the opportunity for an accelerated Gadwall workover. Production from Gadwall will be reinstated mid-2015, following the sidetracking of the existing well in H2 2014. The Grouse well now benefits from stable gas-lift supply.

EnQuest made substantial improvements in operating efficiency, with opex per barrel significantly reduced from pre-acquisition levels. Front End Engineering Design ('FEED') studies were being completed on the proposed development of Scolty/Crathes.

2015 and beyond

Goosander, Grouse and Mallard will all be online in 2015 and production from Gadwall is expected to be reinstated in mid-2015.

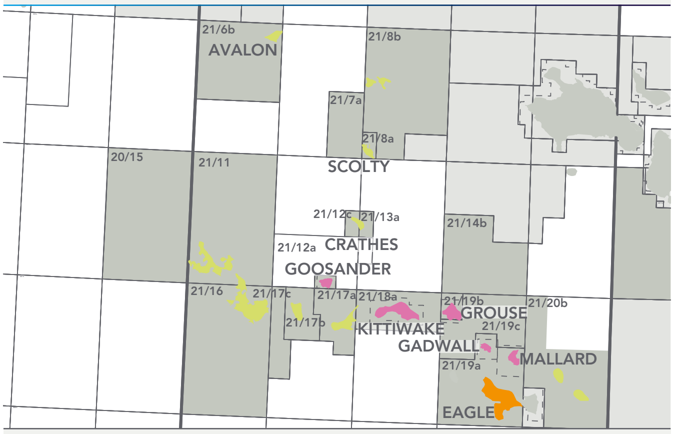
We are conducting studies on future development scenarios for Avalon, and have considered options for Avalon in FEED engineering on Scolty/Crathes.

Further reductions in GKA unit opex are anticipated during 2015.

Daily average net production:

- 2014: 1,281 Boepd

This is based on the net production since the acquisition at the start of March 2014, as averaged over the full year.



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

NORTH SEA OPERATIONS

ALMA/GALIA

2014

At the end of 2014, the Alma/Galia development project was on track for first oil in mid-2015.

Systems required for first oil were mechanically complete, with commissioning well underway.

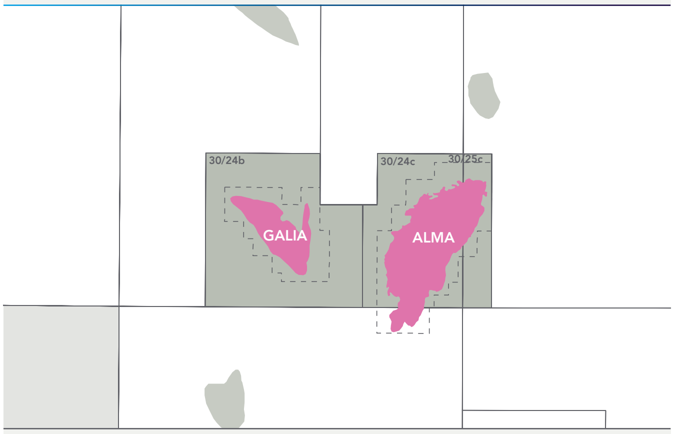
Control systems (marine, subsea, electronic submersible pumps) had been installed and commissioned. Five production wells were fully completed and ready for FPSO tie-in. The pre-first oil drilling programme for the production wells was successfully completed, with five wells meeting or exceeding expectations. The subsea infrastructure was in place, with risers and mooring systems wet-stored awaiting the arrival of the FPSO.

2015

In January the EnQuest Producer boilers were lit, one of the final steps ahead of completing onshore commissioning. The FPSO recently left the yard in Newcastle and has successfully completed marine performance trials in deeper water nearby, on schedule for first oil in the middle of the year. Oil tank commissioning is undertaken in the field, just ahead of commercial production coming onstream. Alma/Galia is on course for first oil in mid-2015. Five wells are now available to come onstream in mid-2015; a phased start up is planned, with one well coming onstream per week, for the first month. Drilling on the Galia production well is to be completed and tied in during H2 2015.

First oil expected in mid-2015

- Net peak production to be c.13,000 Boepd



Working interest at end 2014:

- 65% in both fields

Decommissioning liabilities:

- As per working interest

Floating, production storage and offloading unit with subsea wells

NORTH SEA OPERATIONS

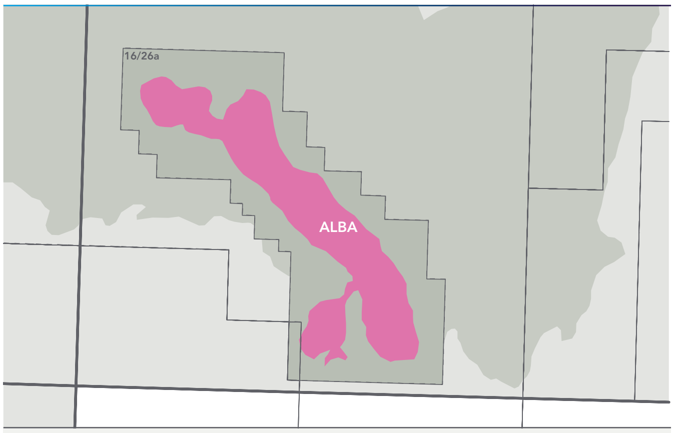
ALBA (NON-OPERATED)

2014
Field production was stable in 2014.

The Alba oil field is operated by Chevron.

In 2014, operations included the drilling of two production wells, with the second well coming onstream in September 2014. A new 4D seismic survey was also acquired, which is key for maturing future drilling targets.

2015 and beyond
Infill drilling will continue in 2015, with a new production well (S11) and a water injection pipeline scheduled to be online in Q3 2015. There will be a planned maintenance shutdown for approximately three weeks in 2015.



Working interest at end of 2014:
- 8%

Decommissioning liabilities:
- As per working interest

Fixed steel platform
- 2014: 1,214 Boepd
- 2013: 922* Boepd

* Net production since the completion of the acquisition at the end of March 2013, averaged over the full year.

OUR HYDROCARBON ASSETS

EnQuest's asset base as at 31st December 2014 (including 28th Round UK Licences awarded in early 2015)

Licence	Blocks	Working Interest (%)	Name
UNITED KINGDOM:			
Production & Development			
P73	21/12a	50	Goosander
P213[5]	16/26a	8	Alba
P236	211/18a	99	Thistle & Deveron
P236	211/18a	60	Don SW & Conrie
P236	211/18b	63	West Don
P238	21/19a & 19b	50	Grouse, Mallard, Gadwall
P242	2/5	63 & 100	Broom & Heather
P351	21/18a	50	Kittiwake
P475	21/19s	99	Thistle
P902	2/4a	63	Broom
P1077	9/2b	60	Kraken & Kraken North
P1200	211/13b	63	West Don
P1765	30/24c & 25c	65	Alma
P1825	30/24b	65	Galia
P2137	211/18e & 19c	60	Ythan
Discoveries			
P209[6]	9/28a	19	Crawford
P220, P250, P585	15/17n, 15/17a & 15/12b	60	Kildrummy
P1107	21/8a	40	Scolty
P1214, P1892	16/2b, 16/3d	45	Cairngorm
P1617	21/12c & 13a	40	Crathes
P2006	21/6b	50	Avalon
Other Licences			
P90	9/15a	33	
P242	2/5b	55	
P1415	21/17a & 17c	50	
P1463	14/30a	20	
P1968	2/10a, 3/6a & 3/11c	100	
P1976	8/5 & 9/1b	60	
P1991	14/30c	40	
P1996	28/2b & 3b	100	
P2005	22/11b	50	
P2027	21/17b	100	
P2084	21/7a	50	
P2143	3/1b	100	
P2148[1]	9/2c	60	
P2173[1]	20/15, 21/11 & 16	50	
P2176	21/8b	100	
P2177[1]	21/14b, 19c & 20b	50	
P2201[1]	211/13c & 18/c	60	
NORWAY			
PL758	6508/1, 6608/10 & 6608/11	35	
PL760	6607/11 & 6607/12	50	
PL760 B[2]	6607/12	50	
PL800[2]	6508/1 &6508/2	35	
MALAYSIA			
PM8/Seligi[3]	PM8 Extension	50	Seligi, North & South Raya, Lawang, Langat, Yong and Serudon
Tanjong Baram SFRSC[4]	Tanjong Baram	70	Tanjong Baram
SB307 & 308 PSC	SB307 & SB308[5]	42.5	

Notes
1. P2148, P2173, P2177 & P2201 – 28th Licence Round awarded Q1 2015
2. PL760 B & PL800 – APA2014 licences awarded Q1 2015
3. Official reference PM-8 Extension PSC
4. Small Field Risk Service Contract. PETRONAS remains the asset owner
5. Not operated
6. In 2014, EnQuest gave notice that it is reducing its working interest in Crawford to 19%, this is taking effect in H1 2015.

EnQuest Oil & Gas Reserves and Resources at 31 December 2014

	UKCS		Other Regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1, 2, 3 and 6)					
At 1 January 2014		194.76	–	–	194.76
Revisions of previous estimates		5.33	–	–	5.33
Discoveries, extensions and additions (note 7)		7.25	–	–	7.25
Acquisitions (note 8)		6.21	–	16.54	22.75
Production:					
Export meter	(8.92)		(1.30)		
Volume adjustments (note 5)	0.14		–		
		(8.78)		(1.30)	(10.08)
Proven and Probable Reserves at 31 December 2014 (note 10)		**204.76**		**15.24**	**220.00**

Contingent Resources (notes 1, 2 and 4)			
At 1 January 2014	117.00	4.40	121.40
Revisions of previous estimates	6.12	–	6.12
Discoveries, extensions and additions	2.53	–	2.53
Acquisitions (note 8)	20.61	52.27	72.88
Disposals (note 9)	(14.28)	(4.40)	(18.68)
Promoted to reserves (note 7)	(13.62)	–	(13.62)
Contingent Resources at 31 December 2014	**118.36**	**52.27**	**170.63**

Notes:

1 Reserves are quoted on a net entitlement basis, resources are quoted on a net 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 UKCS volumes are presented pre SVT value adjustment.
7 Contingent Resources previously allocated to Scolty/Crathes have been classified as reserves following development planning. Ythan resources have been classified as reserves due to the approval for development.
8 Seligi and PM8 assets in Malaysia were acquired in June 2014. Greater Kittiwake Area assets were acquired in March 2014. West and East Torphins, Avalon and Shelterstone acquired.
9 Cairngorm appraised and farmed down, Peik relinquished in January 2014 and Horizon West sold in November 2014.
10 The above Proven and Probable Reserves include 10.5 MMboe that will be consumed as lease fuel on the Kraken and Alma FPSOs.
11 The above table excludes Tanjong Baram in Malaysia.

ENQUEST VALUES

CREATIVITY

Creativity for me means being innovative and novel when tackling problems and that is why I enjoy working at EnQuest. I joined EnQuest not for a job, but to build a dynamic career in an entrepreneurial oil and gas producer. It is highly fulfilling to work with colleagues who are not only open to new ideas and methods but also ask all the right questions when facing unconventional challenges.

DAWOOD AHMED, SOLICITOR

OPERATING REVIEW

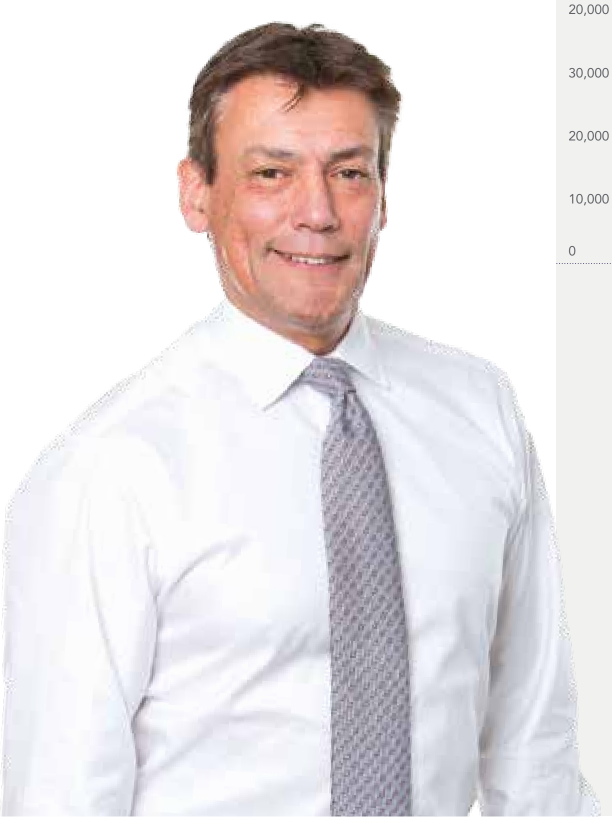
ENQUEST THE OPERATOR MAJOR PROJECTS

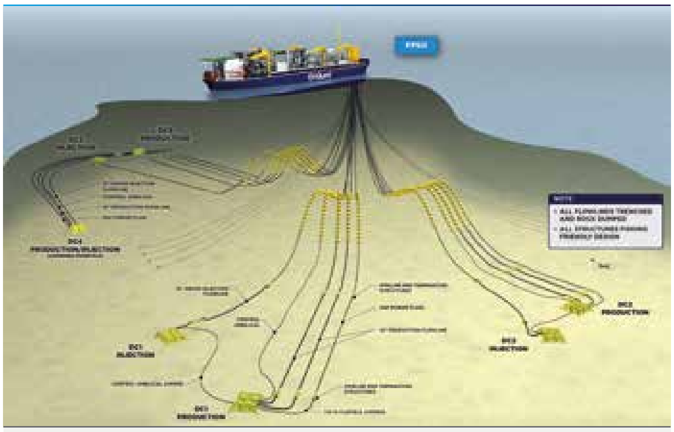
KRAKEN CONTINUES ON SCHEDULE AND ON BUDGET FOR FIRST OIL IN 2017

Overview

2014 was a year of significant progress for EnQuest's Kraken development in the northern North Sea, with material advances across the key areas of the project; all key supplier contracts are in place on a fixed price, milestone basis.

Richard Hall
Head of Major Projects

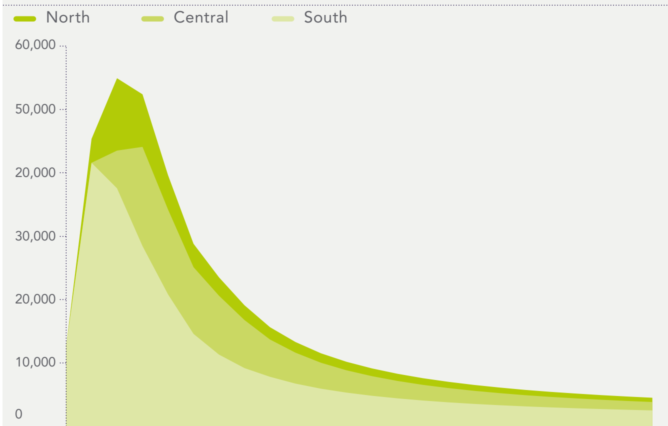




Kraken infrastructure

During 2014, the work that was required to prepare the donor tanker for conversion to FPSO was largely completed; hull and deck modifications began, alongside other workscopes, including accommodation upgrades and helideck fabrication. All the principal contracts have now been placed for individual modules, including the power, water injection and electrical units.

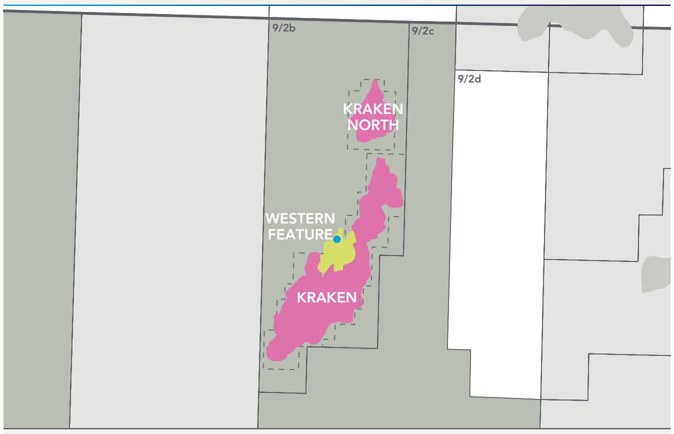
Kraken Gross Production Profile (Boepd)



MAJOR PROJECTS

KRAKEN

First Oil expected 2017
- Net peak production to be c.30,000 Boepd



Working interest at end 2014:
- 60%

Decommissioning liabilities:
- As per working interest

Floating Production Storage and Offloading unit with subsea wells

2014

During 2014, the Kraken project progressed well, on budget and on schedule.

In Q2 2014, the FPSO donor vessel arrived at the shipyard in Singapore for the conversion scope to commence. The programme of conversion work continued throughout the rest of the year. The initial focus was on the hull conversion and the marine system refurbishment. Fabrication progressed for key elements of the FPSO, including the topside modules, accommodation and the helideck.

In H2 2014, EnQuest conducted the installation of two integrated templates (subsea structures) at the first drill centre, where the initial wells for the development will be drilled. A survey vessel successfully completed coring work at the FPSO mooring anchor locations. Delivery of the hydraulic submersible pumps ('HSP') used to provide the artificial lift commenced in Q3 2014. Detailed engineering, procurement and manufacture for all equipment relating to wells, subsea infrastructure and the FPSO continued throughout 2014.

Further appraisal drilling was undertaken to the west of the Kraken field in H2 2014, to assess potential there.

2015 and beyond

The Kraken programme for 2015 includes the installation of subsea hardware, including the manifolds for the first drill centre which connect to the templates already installed and two templates for the second drill centre and six subsea trees. The mooring system for the FPSO and the batch drilling programme will also commence.

The drilling of an appraisal well and sidetrack to the west of the Kraken Field has confirmed the presence of oil. Preliminary analysis indicates that the primary well (Tyrone) found oil bearing reservoir with a net vertical thickness of approximately 25 feet. The sidetrack (Tiree) also confirmed oil bearing reservoir, with net vertical thickness of approximately 83 feet. Further evaluation is ongoing.

The new drilling rig is expected on location at Kraken by Q3 2015, to commence the Kraken batch drilling programme.

The FPSO programme also continues, with a dry docking scheduled to install the FPSO turret by the end of Q1 2015.

OPERATING REVIEW

ENQUEST THE OPERATOR
INTERNATIONAL OPERATIONS

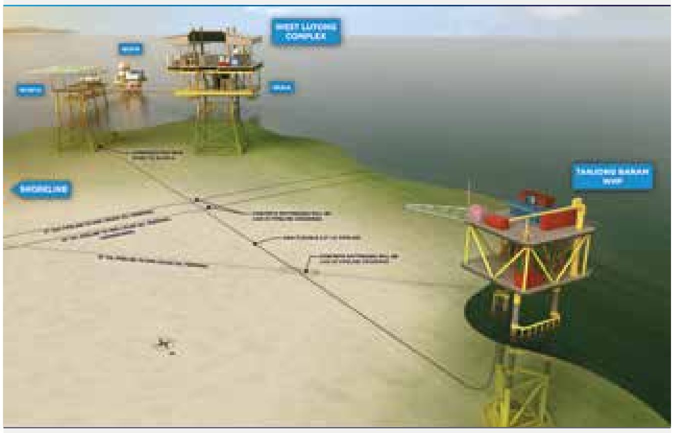
Our Production Sharing Contract ('PSC') for PM8/Seligi in Malaysia includes the Seligi oil field, once the largest oil field off Peninsular Malaysia. PM8/Seligi combined has over 200 wells.

Faysal Hamza
Head of International

PM8/Seligi

This is a substantial opportunity for EnQuest to replicate the success of its strategy on Thistle, potentially on a considerably larger scale, significantly increasing production, extending PM8/Seligi's field life and increasing reserves.

PM8/Seligi has already materially increased EnQuest's overall production levels and by Q4 2014, the new fields were producing approximately 15,000 Boepd gross. Having taken over operatorship, EnQuest is focused on an ongoing programme to target efficiency improvements and to maximise recovery.



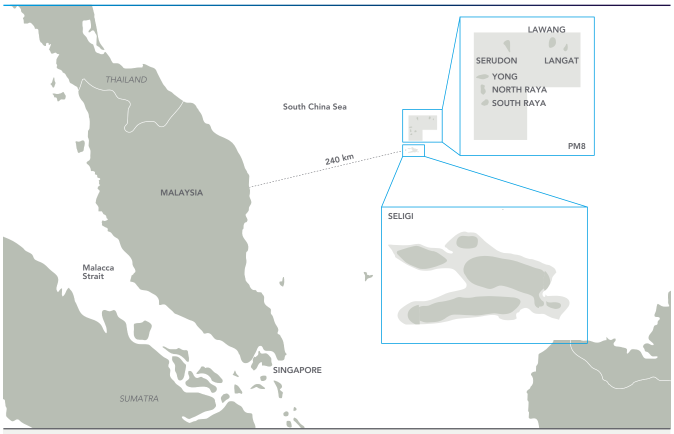
Tanjong Baram infrastructure

INTERNATIONAL OPERATIONS

PM8/SELIGI

2014
EnQuest assumed offshore field operations in October, while the overall transition completed in December 2014. Production from the fields has been strong and continues to increase. Going forward, EnQuest intends to enhance production through well interventions, facilities rectification and upgrades, and subsurface programmes that will lead to new wells.

2015 and beyond
The work programme is focused on well interventions and improving the field infrastructure, including gas compressors, power generators and ongoing integrity management of topside facilities and pipelines.



Working interest at end 2014:
- 50%

Decommissioning liabilities:
- PM8, 50%
- Seligi, 50% of partial liability allocated based on ratio of remaining oil reserves to estimated ultimate recovery

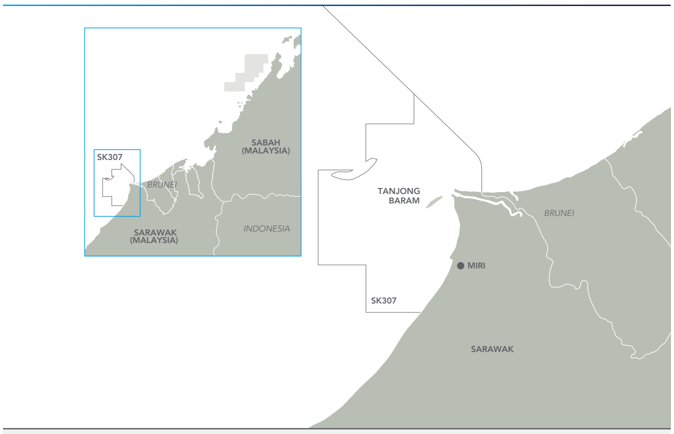
In addition to the main production platform and separate gas compression platform, there are eleven minimum facility satellite platforms tied back to the main platform

Daily average net production:
- 2014: 3,459 Boepd (working interest)
- 2014: 2,078 Boepd (entitlement)
- Reflects net production from end of June 2014 to December 2014, averaged over the full year.

TANJONG BARAM

2014
In March 2014, EnQuest signed a Small Field Risk Service Contract with PETRONAS for the development of the Tanjong Baram field, offshore Sarawak. Tanjong Baram is being developed as an unmanned platform with production tied back to the Petronas Carigali operated West Lutong A complex. The development plan is based on a two well programme, with capacity for one additional well in the facilities design. Work on the development of the project is proceeding according to plan.

2015 and beyond
Development of the field is underway, with first oil targeted by end of H1 2015, to be followed by steady state operations.



Working interest at end 2014:
- 70%

Decommissioning liabilities:
- None

FINANCIAL REVIEW

The Group has delivered a strong operational performance in 2014 against a backdrop of falling oil prices and general industry cost pressures. Significant capital investment in growth projects continued throughout the year.

Jonathan Swinney
Chief Financial Officer

Financial Overview

In the year ended 31 December 2014, the Brent crude oil price averaged $98.9 per barrel compared to $108.7 per barrel for 2013. Total production volumes were 15% higher for the year ended 31 December 2014 which resulted in revenue of $1,009.9 million compared with $961.2 million in 2013.

	Business performance	
	2014 $ million	2013 $ million
Profit from operations before tax and finance income/(costs)	**362.5**	374.8
Depletion and depreciation	**245.1**	224.0
Intangible impairments and write-offs	**0.6**	2.0
Net foreign exchange (gains)/losses	**(27.2)**	20.5
EBITDA	**581.0**	621.3

EBITDA for the year ended 31 December 2014 was $581.0 million compared with $621.3 million in 2013. The lower EBITDA is mainly due to lower oil prices in H2 2014 and higher tariff and transportation costs.

In H1 2014 the Group successfully raised a $650 million high yield bond. The eight year bond further diversified the Company's capital base and gives long term maturities for its debt profile. At the year end $217.6 million was drawn on the $1.2 billion Revolving Credit Facility (RCF) before taking into account cash balances of $176.8 million. In addition, during the year, the Group also entered a £31.8 million two year development loan facility to finance the construction of the Group's Aberdeen office building.

Following receipt of the bond proceeds EnQuest entered into a number of foreign exchange transactions to swap $550 million of the US Dollar proceeds into Sterling to enable it to repay Sterling drawings under the RCF. The transactions required EnQuest to swap Sterling back into US Dollars between October and December 2014 at a fixed rate. In early October 2014 the transactions were closed out realising a gain of $46.7 million.

	Net debt/(cash)	
	2014 $ million	2013 $ million
Bond[1]	**882.6**	254.5
Multi-currency revolving credit facility[1]	**193.5**	199.4
Property loan[1]	**33.5**	–
Cash and cash equivalents	**(176.8)**	(72.8)
	932.8	381.1

1 Stated excluding accrued interest and net of unamortised fees.

Through these facilities, EnQuest has a diversified and long term funding base providing financing for current projects.

As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately $1,818 million. The effective tax rate for the year excluding exceptional items is 43.5% which reflects the blend of UK and international assets. In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities before 2025. The Group paid cash corporate income tax on assets acquired in Malaysia and this is expected to continue throughout the life of the production sharing contract (PSC).

Income Statement

Production and revenue

Production levels, on a working interest basis, for the year ended 31 December 2014 averaged 27,895 Boepd compared with 24,222 Boepd in 2013. The increase reflects a substantial initial contribution from PM8/Seligi in Malaysia, higher production in the Thistle field which has been experiencing high production efficiency and ten months of production from the newly acquired Greater Kittiwake Area (GKA) assets. This was partially offset by the expected natural decline in the Don fields.

The Group's blended average realised price per barrel of oil sold was $100.6 for the year ended 31 December 2014, below the $109.7 per barrel received for 2013, reflecting the decline in the oil price in Q4 2014. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2014 crude oil sales totalled $970.5 million compared with $953.8 million in 2013. The increase in revenue was due to the higher production and an overlift of $8.2 million in 2014 compared with an overlift of $2.6 million in 2013 and partly offset by a reduction in the oil price. Within revenue in 2014 there is $31.7 million of realised income relating to oil commodity hedges and call options.

Operating costs

Cost of sales comprises cost of operations, tariff and transportation expenses, change in lifting position, inventory movement, derivative and foreign exchange hedging movements 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 2014 $ million	Reported year ended 31 December 2013 $ million
Cost of sales	**654.1**	526.3
	$	$
Unit operating cost, adjusted for over/underlift and inventory movements (per barrel):		
–Production costs	**31.5**	27.2
–Tariff and Transportation costs	**10.6**	8.3
–Operating costs	**42.1**	35.5
–Depletion of oil and gas properties	**24.6**	24.6
	66.7	60.1

Cost of sales pre-exceptionals and depletion of fair value adjustments was $654.1 million for the year ended 31 December 2014 compared with $526.3 million in 2013. An increase of $85.3 million was due to costs relating to the GKA and PM8/Seligi acquisitions and an increase of $34.0 million was due to increased transportation costs. The significant increase in the latter was partly due to increased volumes, but mainly due to an increase in the costs per barrel at the Sullom Voe Terminal (SVT). This has been partially offset by an overall gain relating to the bond proceeds currency transactions and realised mark to market valuations on foreign exchange trades.

The Group's operating costs comprise production costs and tariff and transportation costs which were $436.5 million for the year ended 31 December 2014 compared with $308.0 million in 2013. Transportation costs increased from $73.5 million to $140.0 million for the year ended 31 December 2014 mainly due to significantly higher unit costs per barrel at SVT. Production costs increased by $61.7 million to $296.2 million for the year ended 31 December 2014, partly attributable to the acquisition of the GKA asset on 1 March 2014 and the PM8/Seligi Malaysian asset acquired at the end of June. In the other producing assets, higher costs in Thistle and Heather related to diesel usage and increased logistics and maintenance costs.

There has been a significant increase in SVT tariff costs. Costs are $28.9 million higher than the prior year due to a higher base level of costs incurred by the operator and also EnQuest being allocated a higher proportion of SVT costs in 2014. This reflects EnQuest's increased production and therefore higher share of throughput at SVT. In addition, the exceptional items include a charge of $32.8 million in respect of 2012 and 2013 costs which were only notified to EnQuest by the operator in 2014. Working collaboratively with the SVT operator and co-owners, gross costs are expected to be reduced going forward and also a lower proportion of these will accrue to EnQuest. The project to define the medium to long term future is maturing in its definition and we expect the SVT operator to define the project fully in 2015. Finally, the unit operating cost per barrel has been adjusted for a 40% allocation of the gain from the bond proceeds currency transactions, which reflects the approximate ratio of operational expenditure to capital expenditure for the year.

Due to the above factors, the Group's average unit production and transportation cost has increased by $6.6 per barrel.

The Group's depletion expense per barrel for the year is consistent with the previous year with a higher rate in Heather and Thistle as a consequence of a higher capex profile offset by lower production in the Don fields.

The Group's change in lifting position was an $8.2 million expense for the year ended 31 December 2014, compared with an expense of $2.6 million in 2013. The net overlift during 2014 has increased mainly due to the UK operated assets being in an overlift position offset with an underlift in Alba and Malaysia.

Exploration and evaluation expenses

Exploration and evaluation expenses were $4.0 million in the year compared with $8.6 million reported in the previous year. The expenses in 2014 primarily relate to South West Heather, Norway's pre-licence costs and costs relating to the 28th Licence Round in the UK.

General and administrative expenses

General and administrative expenses were $16.5 million in the year ended 31 December 2014 compared with $25.0 million reported in the previous year. A reduction in business development specific costs and higher Parent Company Overhead (PCO) recovery accounts for the majority of the movement.

Other income and expenses

Other income is comprised of net foreign exchange gains of $27.2 million in the year ended 31 December 2014 relating to exchange rate fluctuations relating to the retail bond and bank loans.

Taxation

The tax charge for the year of $105.8 million, excluding exceptional items, represents an effective tax rate of 43.5% compared with 43% in the previous year. The small increase in the Group's effective tax rate for the year is due primarily to foreign exchange losses relieved at the mainstream tax rate, partly offset by an increase in the Ring Fence Expenditure Supplement on UK activities.

FINANCIAL REVIEW CONTINUED

Exceptional items and depletion of fair value uplift

Exceptional losses totalling $821.9 million before tax have been disclosed separately in the year ended 31 December 2014. Tangible oil and gas assets have been impaired by $678.8 million relating to the Don fields and Alma/Galia. The impairment is primarily due to the significant fall in the oil price in the latter part of 2014.

Exceptional items also includes an impairment of $152.0 million to intangible costs for the year ended 31 December 2014. The majority of the costs relate to the Crawford, Porter, Kildrummy and Cairngorm licences and some GKA acreage in the UK. In current market conditions some of these interests do not merit sufficient funds to progress them to economic development. The impairment also includes costs on the unsuccessful exploration well in the SB307/308 block in Malaysia.

The remaining balance is made up of SVT costs of $32.8 million invoiced by the operator in 2014, but relating to 2012 and 2013 production, $6.9 million of depletion on the fair value uplift on acquisitions and $19.2 million unrealised mark to market losses on derivative contracts offset by negative goodwill of $28.6 million relating to the acquisition of PM8/Seligi in Malaysia.

The tax impact of the exceptional items is a tax credit of $508.1 million, resulting in an overall tax credit for the year of $402.3 million and an overall effective tax rate of 69.5%.

Finance costs

Finance costs of $121.1 million include $52.1 million of bond and loan interest payable, $12.1 million unwinding of discount on decommissioning provisions and $41.4 million relating to the time value of the closed out puts. Other financial expenses of $18.5 million are primarily commitment and letter of credit fees of $11.6 million as well as arrangement fee amortisation relating to the bank facilities and bonds of $6.8 million. The Group capitalised interest of $3.2 million for the year ended 31 December 2014 in relation to the interest payable on borrowing costs on its capital development projects.

Finance income

Finance income of $1.8 million includes $0.3 million of bank interest receivable, $0.4 million VAT interest received and $0.9 million unwinding 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 was (22.8) cents for the year ended 31 December 2014 compared with 24.4 cents in 2013. The decrease of 47.2 cents was attributable to higher operating, finance and exceptional impairment costs offset slightly by a lower tax charge for 2014. The Group's reported diluted earnings per share excluding exceptional items was 17.8 cents for the year ended 31 December 2014 compared with 24.0 cents in 2013. The decrease of 6.2 cents was mainly attributable to lower gross profit and higher finance costs offset by a lower effective income tax rate.

Cash flow and liquidity

The Group's reported cash generated from operations in 2014 was $637.1 million compared with $562.7 million in 2013. The reported cash flow from operations per share was 82.3 cents per share compared with 72.3 cents per share in 2013. The increase is mainly due to a decrease in trade receivables and joint venture debtors, an increase in trade payables, accrued payables and a decrease in the opening underlift position.

During the year ended 31 December 2014, $2.1 million was received in relation to an exploration refund for EnQuest Norge AS's activities in Norway. In addition, $7.9 million was paid during the year ended 31 December 2014 in relation to EnQuest Group's UK tax liabilities for non-operational activities and petroleum revenue tax (PRT). $6.6 million was paid in relation to the Group's operations in Malaysia.

It is anticipated that the underlying effective tax rate for 2015 will be materially below the UK statutory tax rate of 60%, excluding one-off exceptional tax items, mainly due to the impact of Ring Fence Expenditure Supplement. In the current environment and with the investment in the North Sea, the Group does not expect a material cash outflow for UK corporation tax on operational activities before 2025. This is due to the projected level of capital expenditure, which benefits from tax deductible first year capital allowances in the UK, available field allowances 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:

	2014 $ million	2013 $ million
Expenditure on producing oil and gas assets	**318.0**	294.5
Development expenditure	**628.1**	632.0
Exploration and evaluation capital expenditure	**69.7**	36.6
Other capital expenditure	**44.5**	21.2
	1,060.3	984.3

Significant projects were undertaken during the year, including:

- the Alma/Galia development including spending on the FPSO and further drilling of the production wells;
- the Kraken development;
- the Thistle life extension programme;
- the Dons drilling programme on the TJ production well and the scale dissolver programme at Don Southwest;
- Ythan JT well;
- the acquisition of GKA and successful workover of Mallard;
- the Heather/Broom drilling programme was completed and drilling programmes on H44, H47 and H56; and
- PM8/Seligi acquisition.

Net debt at 31 December 2014 amounted to $932.8 million compared with net debt of $381.1 million in 2013.

In H1 2014, the Group successfully issued a $650 million high yield bond, with a 7% coupon and a 2022 maturity.

In 2015, the Group renegotiated financial covenants under its RCF to provide greater flexibility for its capital investment programme. The net debt/EBITDA covenant has been increased to five times and the ratio of financial charges to EBITDA has been reduced to three times, both until mid-2017. Compliance with ongoing covenants continues to be a priority for the Group.

Balance Sheet

The Group's total asset value has increased by $545.4 million to $4,095.9 million at 31 December 2014 (2013: $3,550.5 million).

Property, plant and equipment

Property, plant and equipment (PP&E) has increased to $3,116.4 million at 31 December 2014 from $2,871.2 million at 31 December 2013. The increase of $245.2 million is mainly due to oil and gas asset capital additions of $839.5 million. The main spend relates to Kraken ($112.7 million) and Alma/Galia ($415.8 million). There was also $82.1 million in relation to changes in estimates on the decommissioning provisions and $206.1 million of acquisition costs mainly relating to GKA ($55.0 million) and Malaysia ($150.9 million). Depletion and depreciation charges of $252.0 million were incurred as well as an impairment charge of $678.8 million.

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

	2014 $ million
Dons hub	53.1
Thistle hub	79.8
Heather and Broom hub	96.4
Alma/Galia	415.8
Kraken	112.7
Alba	4.5
GKA	95.7
PM8/Seligi	160.8
Tanjong Baram	22.1
Other	4.8
	1,045.7

On 1 March 2014, EnQuest completed the acquisition of the GKA assets including an interest in the Kittiwake to Forties oil export pipeline. In June 2014, EnQuest completed the acquisition of the Seligi oil field and the PM8 PSC, located offshore Malaysia.

Intangible oil and gas assets

Intangible oil and gas assets decreased by $65.2 million to $65.7 million at 31 December 2014. The decrease mainly relates to impairments on the Crawford, Porter, Kildrummy and Cairngorm licenses and some GKA acreage in the UK.

Investments

The Group holds an investment of 160,903,958 new ordinary shares in Ascent Resources plc which is valued at $0.7 million based on the quoted bid price as at 31 December 2014.

Inventory

Inventory increased by $42.6 million, the increase relates to the purchase of xmas trees of $22.0 million and drilling and operational inventory.

Trade and other receivables

Trade and other receivables have increased by $19.0 million to $286.2 million at 31 December 2014 compared with $267.2 million in 2013. Prepayments and accrued income include the initial payment of $100 million to Armada Kraken PTE Limited for the lease of an FPSO vessel for the Kraken field. Trade receivables and joint venture receivables have both decreased in line with normal business activity.

Cash and bank

The Group had $176.8 million of cash and cash equivalents at 31 December 2014 and $217.6 million was drawn down on the $1.2 billion RCF.

Provisions

The Group's decommissioning provision increased by $221.3 million to $449.7 million at 31 December 2014 (2013: $228.4 million). The acquisition of GKA and PM8/Seligi have an associated provision of $124.3 million. EnQuest has a 50% interest in the GKA area, but is only responsible for approximately 25% of the decommissioning liability for the platform. The decommissioning provision for GKA is $77.6 million. For the PM8 PSC, EnQuest's estimated share of the decommissioning provision is approximately $46.7 million, for which the PSC contractors are required to make annual cost recoverable contributions into a sinking fund based on a pro-rata production basis.

The Group has re-evaluated the discount rate to be used when discounting the Group's decommissioning liabilities. The liability is discounted at 3% (2013: 5%) and this is included as a change in estimate, resulting in an increase of $77.4 million. The underlying costs for the UK assets remain consistent with the third party report that was commissioned in 2013 to complete the detailed triennial study to review decommissioning cost estimates for the operated producing hubs.

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 was initially recognised in 2013 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 early 2015.

Income tax

The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2014, which remains unchanged from the prior year. The Group had PRT recoverable of $4.4m at 31 December 2014 compared with a $4.0 million liability at 31 December 2013. The decrease is due to over paid PRT instalments on Alba in the second half of 2014. The income tax asset at 31 December 2014 represents the expected refund on exploration activities undertaken in Norway, a pre-acquisition corporate income tax overpayment in Malaysia and the expected PRT refund.

Deferred tax liability

The Group's deferred tax liability (net of deferred tax assets) has decreased by $283.7 million to $462.6 million at 31 December 2014 from $746.3 million in 2013. The decrease is mainly due to the impairment charge, partly offset by 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 deferred tax liabilities arising on the acquisition of assets in Malaysia. Total UK tax losses carried forward at the year end amount to approximately $1,818.2 million.

Trade and other payables

Trade and other payables have increased to $429.1 million at 31 December 2014 from $363.3 million at 31 December 2013. The increase of $65.8 million is mainly due to an increase in trade payables of $57.8 million in line with increased activity in the year and an increase in the overlift position of $13.1 million.

FINANCIAL REVIEW CONTINUED

Other financial liabilities

Other current financial liabilities have decreased by $68.4 million to $101.5 million. The decrease relates to the Kraken 'firm' carry which has reduced throughout the year, amounting to $99.0 million. This is offset by an increase relating to commodity forward contracts and forward foreign currency contracts of $29.6 million.

Other non-current financial liabilities have increased by $22.9 million. The balance is made up of commodity forward contracts of $18.0 million that expire in 2016 and $5.7 million relating to a carry liability with respect to PM8.

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 manage the impact of commodity prices and during 2013 the Company entered into commodity hedging contracts to hedge partially 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 would only be triggered if the monthly average price of Brent exceeded a fixed price for the given month (ranging from $119 to $124 per barrel).

During Q1 2014, the Company swapped an additional 1 million barrels at prices of approximately $109/bbl. An additional 1 million barrels were swapped in Q2 at a price of $105/bbl.

In Q4 2014, the Company bought puts covering 8 million barrels to hedge 2015 production at an average price of $87.3/bbl. In addition, the Company sold calls covering 8 million barrels maturing in 2015 and 7.5 million barrels maturing in 2016. The put position was closed in Q4 2014, with the Company purchasing new puts covering 10 million barrels of 2015 production priced at $65/bbl and selling a further 2.25 million barrels of 2015 calls. In return, for closing out the $87.3/bbl puts and purchasing the lower priced puts and selling the additional calls, the Company received cash of $100 million. Gains of $119.1 million in respect of the 8 million barrels of puts closed in December, which were designated as hedges of 2015 production, have been deferred in equity, and will be recognised during 2015.

After the year end the Group hedged 10 million barrels of production for 2016, through the purchase of puts with an average strike price of $68.2/bbl on a pro-rata basis throughout 2016. In addition, the Group sold further calls maturing in mid-2015 and through 2016. In total, as at the date of this report, the Group has sold 11.8 million barrels of 2015 calls with an average strike price of $80.55/bbl, and 13.5 million barrels of 2016 calls with an average strike price of $88.53/bbl.

The total premiums received or receivable through the sale of calls to date totals $115.0 million. This premium will be realised in the income statement over the life of the options. In total $6.8 million was realised in 2014, with a further $82.4 million and $25.8 million to be realised in 2015 and 2016 respectively. Unrealised mark to market movements in these options will be recognised as an exceptional item in line with the Company's accounting policy.

EnQuest's functional currency is US Dollars. Foreign currency risk arises on purchases and the translation of assets and liabilities denominated in currencies other than US Dollars. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. During the first half of 2013, the Group entered into a structured product to hedge a portion of its Sterling, and Norwegian Krone (NOK) exposure throughout 2013 and 2014. During 2014, a total of £182 million of Sterling exposure was hedged using this structured product with an average strike price of $1.46:£1. If the spot rate at expiry of the contracts was above $1.64:£1 then there was no trade and the Group funded its Sterling requirement through the spot market or drew Sterling on the bank facility. Between $1.64:£1 and $1.33:£1, EnQuest traded at the lower of $1.46:£1 and the spot rate, and below $1.33:£1, EnQuest traded a higher volume of currency at $1.46:£1.

The same structure was also used to hedge the Group's Norwegian Krone exposure arising as part of the Kraken development project. In 2014, a total of NOK367 million was hedged.

During 2014 the Company entered into several foreign exchange swap contracts when Sterling was trading above $1.66:£1. The realised impact of $46.7 million has been recognised in the income statement within cost of sales.

EnQuest continually reviews its currency exposures and when appropriate looks 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.

Going Concern

The Group closely monitors and manages its liquidity risk throughout the year, including monitoring forecast covenant results. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

Following the significant decline in oil prices, management has taken action to implement certain cost saving programmes, to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2015 and 2016. Management also successfully renegotiated certain covenants contained within the Revolving Credit Facility.

At year end, the Group had significant headroom on its borrowing facilities and related financial covenants under both the Revolving Credit Facility and the Retail Bond. The Group's forecasts and projections take into account the actions described in the preceding paragraph, and reflect the assumption that the Group's major projects remain on track. These forecasts indicate that the Company will be able to operate within the requirements of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Forecasts therefore indicate that the Group's liquidity will remain strong.

Furthermore, if there were further sustained falls in the oil price or the benefits of planned initiatives are not realised, management has a number of options available to it to maintain strong liquidity, including asset sales, new financings or amendment of covenants under the existing financing arrangements (including the Retail Bond) and may do so as a precautionary measure should it determine that it is appropriate or prudent to do so. The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

Key Performance Indicators

	2014	2013
Lost Time Incident Frequency (LTIF)	**0.00**	1.36
2P reserves (MMboe)	**220.0**	194.8
Business performance data:		
Production (Boepd)	**27,895**	24,222
Revenue ($ million)	**1,009.9**	961.2
Realised blended average oil price per barrel ($)	**100.6**	109.7
Opex per barrel (production and transportation costs) ($)	**42.1**	35.5
Gross profit excluding exceptional items ($ million)	**355.8**	434.9
Cash capex on property, plant and equipment oil and gas assets ($ million)	**1,060.3**	984.3
Reported data:		
Cash generated from operations ($ million)	**637.1**	562.7
Net debt ($ million)	**(932.8)**	(381.1)
Profit before tax excluding exceptional items ($ million)	**243.3**	338.0
Basic earnings per share (cents)	**(22.8)**	24.4
EBITDA ($ million)	**581.0**	621.3

STRATEGIC REPORT

CORPORATE RESPONSIBILITY REVIEW

During 2014 the Company conducted a review of its approach to Corporate Responsibility and has approved an approach which improves transparency.

The main areas of focus are Health and Safety, People, the Environment, Business Conduct and Society, each with its own policy framework. EnQuest's website has been modified to reflect this approach.

EnQuest recorded its best overall HSE performance since the business was formed in 2010.

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

Health & Safety and Environment: Focus on safety culture and practices

Over the year, we achieved a Lost-Time Incident Frequency Rate ('LTIFR') of zero and a Recordable Incident Frequency Rate ('RIFR') below the industry average. There were no high-potential incidents ('HIPO's): the last recorded HIPO was in April 2013.

In addition, we recorded a total of 11 years without a Lost-Time Incident ('LTI') and 11 million man hours LTI-free across our producing northern North Sea assets. Health and Safety Executive inspections were performed on all these assets, and no major issues were identified.

Our 2014 performance was primarily due to an even greater focus upon our safety culture and practices by our leadership team and senior operations personnel, augmented by an ongoing commitment to our continuous improvement plan by people across the organisation.

In practical terms, three groups of managers and supervisors completed Major Accident Hazard ('MAH') training at the Spadeadam test facility in Cumbria during the year. The courses extended this key area of training further into the business: a similar exercise was undertaken by the leadership team in 2013. This programme connects closely to Operations Excellence, which defines EnQuest's unique way of working and has the control of MAHs as one of its three key themes.

The same theme was also reflected in a detailed review undertaken in 2014 of the hydrocarbon release prevention plans that are in place for individual assets.

Other prominent areas of activity included the provision of support to ready the EnQuest Producer for the start of operations at Alma/Galia in 2015 – ensuring the formation of a complete, fit-for-purpose HSE&A framework for the asset – and detailed preparatory work ahead of the future introduction of a new simplified and standardised Control of Work regime.

A comprehensive review of the safety case for our Thistle asset was completed, to ensure it remains fully up-to-date and relevant. The safety cases for all assets are updated routinely, but each is the subject of a five-yearly review. Safety representatives played a key role in the Thistle review, as they do in all such exercises.

We moved to a single waste management contractor arrangement in 2014. This will help the business pursue its goal of reducing the levels of waste consigned to landfill while improving efficiency.

In Malaysia, an HSE Manager was appointed to lead the establishment and consolidation of an appropriate infrastructure that's fully aligned with the country's regulatory environment as well as EnQuest's own policies and principles in this key area. A close working relationship has been created between our Malaysian operations and the UK to support this key process.

People: Challenging economic conditions

One of the key challenges for the Human Resources ('HR') function lay in managing costs as efficiently as possible within increasingly difficult economic conditions during the latter part of the year.

At the same time, the business benefited from a series of programmes that reflect the underlying principles of EnQuest's People and Organisation strategy.

Internationally, the key focus was upon establishing a strong and sustainable EnQuest team in Malaysia to support the Company's increased operational portfolio there.

The projects rolled out in the North Sea business during 2014 under the People and Organisation agenda – summarised as the right organisation, with great people, who deliver exceptional performance, in the EnQuest way – included the Workday system. This unified HR platform delivers greater control, decision making and compliance and reflects EnQuest's distinctive way of working.

We also introduced a new employee grading system designed to add extra consistency and fairness and instigated a staff development programme. A pilot phase completed in 2014 featured approximately 20 members of staff who underwent a set schedule of coaching and mentoring support. Several of those involved have gone on to be promoted within the organisation.

That same principle was also evident in the ongoing offshore staff deepening process, which continued with 49 further personnel transferring from Petrofac during the year.

In addition, it delivered EnQuest's first formal student placement campaign. A total of 15 students from universities across Scotland spent three months with the company, working in many different areas of the business.

Together, these initiatives illustrate the ongoing process of maturing the practices and processes that underpin all HR related work.

Despite the challenging economic conditions, EnQuest successfully repeated its ability to build organisational capability internationally.

Tullos Primary School partnership: Community

EnQuest's partnership with Tullos Primary School in Aberdeen continued throughout the year.

Specifically, it focused upon 'designing' an organisation – and subsequently assembling a team while putting all required policies and processes in place – in Malaysia. This process was completed, from a standing start, over the course of just a few months. By the end of the year, we had approximately 80 onshore staff and 50 offshore personnel, complemented by a wider team of contractors.

A five strong HR team was formed in Malaysia to deliver this challenging workscope, which was exacerbated by a tight recruitment market in the country. The team has been working with an appropriate degree of autonomy while at the same time ensuring EnQuest's broader principles, as they apply to HR activities, are fully aligned to those of the Group.

EnQuest's successful launch into Malaysia has also fuelled a broader objective: to create new career development experiences and opportunities for EnQuest people in new geographical locations.

Business Conduct: During 2014 EnQuest refreshed its anti-bribery and compliance training programme, rolling this out to all of its personnel.

In addition a compliance officer was appointed in order to review and monitor EnQuest's compliance related policies and controls. EnQuest's Code of Conduct was updated to reflect a number of policy changes.

The Board also reviewed the Company's approach to gender diversity and confirmed that whilst we work hard to ensure that we recruit from a diverse background of candidates, not just in relation to gender, we will continue to recruit the best candidate available for the job, without the decision being influenced by a need to fill certain quotas. We believe that our gender statistics are representative of the demographics of the wider oil and gas industry.

Community: Continued active work programme supporting core community relationships

Once again EnQuest placed a great deal of emphasis upon its community relations work, and helped to deliver very practical gains in the process.

The centrepiece of EnQuest's year was a charity golf day in June which raised more than £75,000 for a number of organisations and campaigns.

A total of £15,000 was donated to the Play Golf – Help Save Lives campaign led by former Ryder Cup Bernard Gallacher. The money was used to gift life-saving equipment to 15 golf clubs – 14 in the north-east of Scotland with high membership numbers, and one in Shetland – in partnership with safety training and offshore services specialist Falck Safety Services.

Each club received automated external defibrillators ('AED'): Bernard Gallacher credits the availability of an AED for saving his life when he suffered a cardiac arrest at a reception in Aberdeen in 2013. He subsequently launched the campaign to provide public access defibrillators at golf clubs across the UK and Ireland.

We also donated £10,000 to the Arrhythmia Alliance, which raises awareness of cardiac arrhythmias and their treatment, as well as £25,000 to each of our two nominated charities: Archway and The Paul Lawrie Foundation.

There was further support for Archway, which provides support services for young people and adults with learning disabilities, in the form of three 'makeover' sessions at a respite centre run by the charity. Groups of EnQuest people spent time performing painting work and other renovation tasks to enhance the facility.

EnQuest's partnership with Tullos Primary School in Aberdeen continued throughout the year. Subsurface and wells personnel visited the school during its annual Science Week to offer an insight into their specialist areas of the industry. Through our partnership with the Paul Lawrie Foundation, we arranged for the provision of pop-up golf facilities at the school to allow youngsters to try the sport, and also facilitated two visits by pupils to the Paul Lawrie Golf Centre just outside Aberdeen.

We supported two Christmas appeals in the north-east of Scotland: Northsound Radio's Cash for Kids 'Mission Christmas' and Instant Neighbour's Giving Tree appeal. The campaigns had the same aim: to ensure every child in Aberdeen received at least one gift on Christmas Day. EnQuest people donated gifts to both causes, while some members of staff provided practical support to the Cash for Kids appeal by spending time at the radio station, sorting gifts into age categories.

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 18 March 2015.

Stefan Ricketts
Company Secretary

GOVERNANCE

BOARD OF DIRECTORS

DR JAMES BUCKEE

NON-EXECUTIVE 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. James retired from Talisman Energy Inc. in 2007.

Other principal external appointments: Non-executive director of Rodinia Oil 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.

The EnQuest Board

The composition of the Board remained constant during 2014. The Directors assess and evolve EnQuest's strategy, taking key decisions on its implementation. In 2014 these included the acquisition of EnQuest's first producing assets outside the North Sea and in 2015 the Board also took measured actions in light of the changed macro environment, in particular in terms of setting the new business plans for 2015 and beyond.

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, Ulster Bank and Affinity Water. He is also non-executive director of Providence Resources P.l.c.

JOCK LENNOX
NON-EXECUTIVE DIRECTOR

Appointed: 22 February 2010
Committee: 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 Carphone plc, Hill & Smith Holdings plc and A&J Mucklow Group plc. Jock is also senior independent director of Oxford Instruments plc and a trustee of the Tall Ships Youth Trust.

CLARE SPOTTISWOODE
NON-EXECUTIVE DIRECTOR

Appointed: 1 July 2011
Committee: 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, Seven Energy Ltd, the Payments Council and Partnership Assurance Group plc.

GOVERNANCE

SENIOR MANAGEMENT

NEIL MCCULLOCH

PRESIDENT, NORTH SEA

Neil is a graduate of Cambridge University and Heriot Watt University and holds a Master's degree in Petroleum Engineering. He began his career as a graduate trainee with British Gas E&P and from 1996-2001 worked in a variety of technical consultancy and investment banking roles. He then went on to spend 11 years with BG Group in a range of senior UK and international roles, latterly as vice president & asset general manager, UK Upstream, with accountability for the delivery of BG's UK North Sea business. Neil joined EnQuest in March 2014 from international oil and gas company OMV AG, where he held the global role of senior vice president production & engineering.

RICHARD HALL

HEAD OF MAJOR PROJECTS

Richard Hall 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 with primary responsibility for delivery of the Kraken project.

FAYSAL HAMZA

HEAD OF INTERNATIONAL

Faysal has an MBA from Georgetown University in Washington and over 25 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).

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 adviser, 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. Nigel retired from his role as Co-founder and Strategic Adviser at the end of 2014.

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, COMPANY SECRETARY, CHIEF RISK OFFICER

Stefan joined EnQuest in 2012 and is responsible for all legal and company secretarial matters and for EnQuest's Risk Management Framework. 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 global 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. He 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 & 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 living and working in the UK, Africa, the Middle East and Asia. He returned to the UK in 2004 and was appointed as HR director for BG Group's Mediterranean Basin and Africa region. Prior to this, Graeme was group head of talent and leadership for Legal & General PLC. Since joining EnQuest in April 2011, Graeme has had responsibility for ensuring that the company has the necessary people and organisation in place to deliver EnQuest's ambitious growth agenda.

GOVERNANCE

CHAIRMAN'S LETTER

Dear Shareholder,

EnQuest PLC ('EnQuest' or the 'Company') has produced strong results in 2014, and we have continued to grow our business in line with our vision despite the current headwinds generated by the present low oil price. The dramatic reduction in oil price was generally not anticipated by the industry. EnQuest has however responded vigorously to the challenges and opportunities which have followed.

Our resilience is as a result of the excellent people we have, our values and the processes we have in place. I would like to extend my thanks to the management and people of the Company for the hard work and dedication shown throughout the year.

Corporate governance

I am pleased to report that your Company has complied in full with the 2012 UK Corporate Governance Code. In September 2014, the FRC published the revised 2014 UK Corporate Governance Code compliance with which will be reported annually by the Company from next year. The Company is well advanced in implementing its responses to the changes brought in by the 2014 UK Corporate Governance Code.

Corporate Governance for EnQuest is not just about following a set of rules but embedding a framework which supports our core values and, provides structure for how we are organised, how we manage risk, how we behave and how we provide assurance in respect of performance. Your Board has strengthened a number of areas of Corporate Governance including our risk management framework and Corporate Responsibility. We have worked, and continue to work, to ensure that all elements of corporate governance are ingrained in our corporate culture and we have developed an environment which nurtures, develops and maintains our approach.

We have three main Board committees within our governance framework: 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, which provide advice and support to the Chief Executive, including an Executive Committee and Operations Committees for each of the North Sea and International business divisions. In addition we have established a Risk Committee responsible for the discussion with the Board of the principal outputs from EnQuest's Risk Management Framework. We also hold dedicated HSE reviews on a quarterly basis which are chaired by the Chief Executive.

Board composition and succession planning

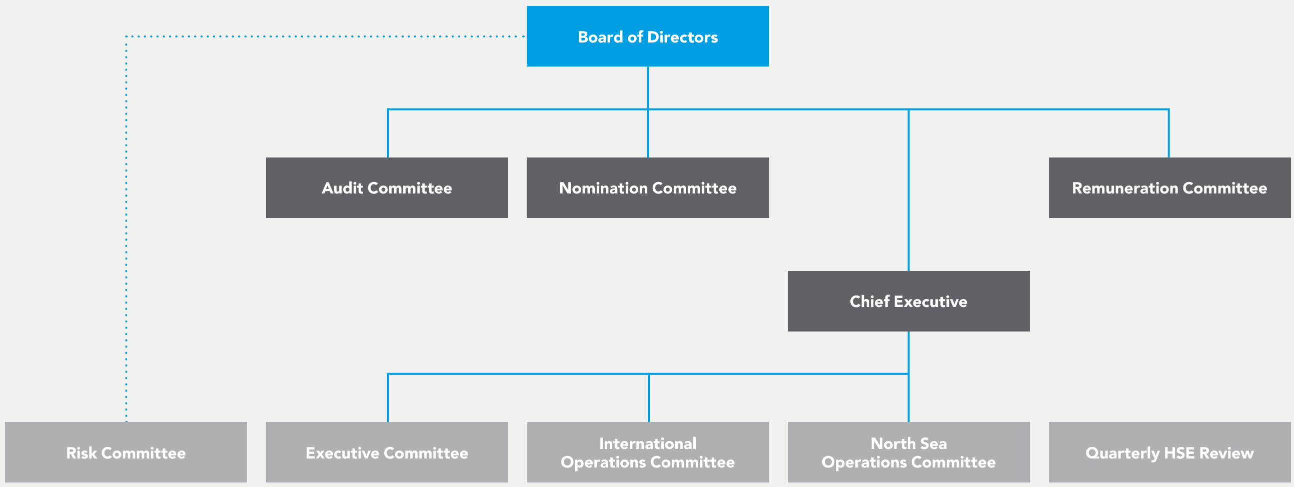
Whilst there have been no changes to the Board during 2014, succession planning to ensure the right composition of the Board has remained a key priority. As Chairman I constantly monitor and review the balance of skills and knowledge on the Board to ensure that the Board is able successfully to execute its strategy, supported by the annual review of Board effectiveness.

Corporate Responsibility

The Board reviewed the Company's approach to Corporate Responsibility and has approved a model which improves transparency. The main areas of focus are Health and Safety, People, the Environment, Business Conduct and Society, each with its own key elements and relevant policy framework.

EnQuest is committed to operating responsibly and will never knowingly compromise the Company's Health and Safety standards. Our approach to HSE&A management is built on our values, which are Respect, Focus, Agility, Creativity, Passion, Collaboration and Empowerment. These values assist us in fostering a working environment which is secure, creative and passionate.

EnQuest Governance and Management Map



During 2014 the Company conducted a thorough review of its Corporate Responsibility policies, which included the area of Human Rights. We seek to avoid causing or contributing to adverse human rights impacts and to address such impacts when they occur. We have ensured that we have strong relevant policies in place covering the areas of Health and Safety, People, Business Environment, Business Conduct and Community. We will be working towards monitoring the impact and progress of these areas in the coming period. We have updated our website to reflect the changes that have been made and we hope that investors find that these changes provide informative and useful insight into our approach to Corporate Responsibility and Human Rights.

ENQUEST VALUES

COLLABORATION

Collaboration is a critical element uniting everyone towards common goals. It does not carry one's role higher than that of others; thus, making everyone equally important and relevant to the business. Collaboration stands very prominently as a critical work delivery method for a high performance team.
RUSLAN IBRAHIM, HUMAN RESOURCES MANAGER, MALAYSIA

Risk
We have undertaken a review of the Company's risk management processes and the Board has adopted a Risk Management Framework that has developed upon existing processes, including making the Company's approach to risk management more robust in light of the growth and expansion internationally.

Shareholder engagement
Transparent and ongoing engagement with shareholders remains a key for the Board and we have held numerous investor relation events during 2014, including investor broker and sales meetings as well as presentations at international conferences. We routinely invite governance officers of key institutional investors to meet with the Chairman and Senior Independent Director to discuss any governance issues they may have.

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 2014. 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.

Dr James Buckee
Chairman

CORPORATE GOVERNANCE STATEMENT

The Board of Directors remains unchanged from 2013 and is currently made up of two Executive Directors and five Non-Executive Directors, including the Chairman.

Leadership

Board composition

The Board of Directors remains unchanged from 2013 and 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 46 and 47.

The role of the Board

The Board is responsible for leadership of the Company and setting strategic objectives, in order to deliver long term shareholder value. The Board is not responsible for the execution of its strategic objectives and these are delegated to the Executive Management. Operational management of the Group on a day-to-day basis is overseen by the North Sea Operations Committee and the International Operations Committee, each of which comprises members of the Executive Committee, Asset Managers and selected Senior Management.

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

Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board. Your Chairman is an independent Non-Executive Director and his key responsibilities are the leadership of, setting the agenda for and ensuring the effective working of, the Board. The Chairman also ensures that the effectiveness and integrity of the Board/Executive relationship is maintained between scheduled Board meetings through regular contact with all Board members. The Chief Executive's role is the operational management of the business, developing strategy in consultation with the Board and then implementing such strategy.

Role of the Non-Executive Directors

The Non-Executive Directors bring to the Board independence, along with a broad mix of business skills, knowledge and experience. They provide an external perspective to Board discussions and are responsible for the scrutiny of the Executive Management on behalf of shareholders. The Board is satisfied that all of the Non-Executive Directors meet the independence criteria as set by the UK Corporate Governance Code. The terms and conditions of each of their appointments are available for inspection

The Non-Executive Directors, in conjunction with the Chairman, meet at least once annually in order to review the effectiveness of the Board.

Senior Independent Director

Helmut Langanger continues to serve as the Senior Independent Director and provides a sounding board for the Chairman as well as acting as an intermediary with other Directors when necessary. He also discusses any concerns with shareholders that cannot be resolved through the normal channels of communications with the Chairman or the Chief Executive. 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 2014 evaluation is addressed on page 53.

Company Secretary

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 predetermined limit. The Company Secretary is instrumental in facilitating the induction of new directors and assists with the ongoing training and development of the Board.

Board activity during the year

How the Board operates

The Board held six scheduled Board meetings throughout 2014, four of which were held at the Company's registered office in London, one was held at the Company's Aberdeen office and one was held offsite in conjunction with the strategy day. In addition to this a number of other meetings were held in order to deal with matters that required consideration at short notice.

Board papers are distributed in a timely manner via our online Board portal system, which provides faster access to Board papers as well as reducing our environmental impact through the elimination of paper packs and removing the costs associated with printing and distribution. The Board agenda is drawn up by the Company Secretary in conjunction with the Chairman and with agreement from the Chief Executive.

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 2014:

	Amjad Bseisu	Jonathan Swinney	Jim Buckee	Helmut Langanger	Jock Lennox	Clare Spottiswoode	Phil Nolan
Board	6/6	6/6	6/6	6/6	6/6	6/6	6/6
Audit Committee	n/a	n/a	n/a	3/3	3/3	3/3	3/3
Nomination Committee	3/3	n/a	3/3	3/3	3/3	3/3	3/3
Remuneration Committee	n/a	n/a	n/a	3/3	3/3	3/3	3/3

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

Board agenda and key activities throughout 2014

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

Matters considered at all Board meetings

- Key project status and progress
- Strategy and business development
- Financial reports and statements
- Operational issues and highlights
- Investor relations and capital markets update
- HSE&A matters
- HR issues and developments
- Key legal updates
- Key transactions

Key activities for the Board throughout 2014

- Annual offsite strategy day held in October
- Corporate Responsibility reviewed and updated
- Risk Management Framework approved by the Board
- Approval and issuance of High Yield Bond
- Board site visit to Newcastle (Alma/Galia project)
- Review of the controls process in respect of contractual commitments
- 2014 budget review and 2015 budget approval
- Review and approval of the HSE&A policy
- Review and approval of the Treasury policy
- Periodic updates on corporate regulatory changes and reporting requirements
- Project assurance processes

Board Committees

The Board delegates a number of responsibilities to its Audit Committee, Remuneration Committee and 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.

In addition to the three Board committees we have several non-Board committees, which assist the Chief Executive in the implementation and monitoring of strategy, namely these are the Executive Committee, North Sea Operations Committee, International Operations Committee and the Group Health, Safety, Environment and Assurance team.

Delegation of Authority

We have a comprehensive Delegation of Authority matrix, which sets out the delegated authority levels and other controls from Board level down. This is periodically reviewed and in 2014 it was supplemented with delegations specific to the Company's Trading and Marketing operations including as to counter party credit risk, reflecting the expansion of the Company's sources of oil production.

Board evaluation

A comprehensive internal Board evaluation covering 2014 has been conducted. This was supported by a high level questionnaire which built on the results of previous year's evaluation. The evaluation was facilitated by the Company Secretary, under the direction of the Chairman and key topics covered included:

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

The review recognised the individual and collective strengths of the directors. The Board considered its own composition in light of the development of the Company, and examined how to enhance information flows and optimise the Board's impact on areas such as strategy, risk management and assurance process as well as information flows.

In addition to the Board evaluation the Senior Independent Director conducted a review by the Board of the Chairman. The review recognised the Chairman's extensive experience and solid stewardship during a challenging period for the Company. 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.

EnQuest conducts an externally facilitated board review once every three years. We will be conducting our second externally facilitated Board review in 2015, the first one having taken place in 2013.

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 Board is updated regularly throughout the year on regulatory and governance changes as well as industry developments. The Chairman monitors the breadth of knowledge, skills and experience of the Board and its Committees to ensure that they can fulfil their obligations.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Directors may consult with the Company Secretary at any time on matters related to their role on the Board.

The table below illustrates the documentation that new Board Directors are issued with when they are appointed on to the Board of EnQuest.

Induction documentation for new Directors	
General	Contact details; Board and relevant committee minutes; previous ARA's and other announcements and reports; delegation of authority matrix; Company organisation chart
Policies	Employee share dealing; code of conduct; anti-corruption training programme; Director duties; listing rules and disclosures summary
Board and Committees	Matters reserved for the Board; committee terms of reference
Governance	Latest UK corporate governance code; EnQuest's Articles of Association
Insurance	D&O policy cover and indemnification

Accountability

Conflicts of interest

Directors have a duty to avoid direct and indirect conflicts of interest. Directors must report any concern in this respect and we ensure that potential and actual conflicts of interest are recorded, and the Board is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently.

Anti-bribery and corruption

In 2014 we have continued to embed our anti-corruption programme including by re-issuing our anti-corruption programme to the whole Company to refresh the familiarity of our personnel with EnQuest's zero tolerance approach and with the Company specific policies.

Risk

As noted above, we have developed a comprehensive Risk Management Framework throughout the course of 2014 which was approved and adopted by the Board in October 2014. Key elements of the Risk Management Framework include: to identify the risks, to assess the risks, ensuring reliable prioritisation, to respond to the risks by implementing fully resourced and effective plans with action owners, and to control the risk through a regular tracking of risk and action progress, by communicating through the organisation.

EnQuest's Risk Management Framework underpins how risks are identified and managed across the organisation. Some key elements of the programme include:

- articulation of the Company's risk appetite to underpin risk activities across the organisation;
- clear identification of risk areas affecting the Company and allocation of responsibilities for identification, monitoring and management of risks;
- delineation of actions to be undertaken in response to risk and the resources required in order to achieve this; and
- governance practices delineating the roles of the Risk Committee, Audit Committee and the Board as well as how risk management and assurance mapping are reported.

We will be continuing to embed the new elements of our framework throughout 2015.

The Company has encouraged staff to escalate any concerns they may have. We provide an external 'speak-up' reporting line for this purpose.

There have been a limited number of instances where issues have been elevated. The identified issues have been addressed and investigated by the Company's General Counsel.

Engagement with shareholders

Relations with shareholders

Effective shareholder engagement is essential to the Board and we ensure continuous dialogue throughout the year by way of investor relations programmes through which the Chief Executive, Chief Financial Officer and Senior Management regularly meet with major shareholders, and by providing extensive information about the Group's activities through the Annual Report and Accounts, half yearly report and interim management statements, which are published promptly and made available on our website.

In 2014, numerous investor and broker sales meetings were held, presentations were made at international conferences as well as a results presentations, which altogether 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 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. We routinely invite the governance officers of large institutional investors 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. These initiatives are made in order to help ensure that we are openly promoting high standards of corporate governance.

Shareholders and other interested parties can subscribe to receive news updates by email by registering online on the website.

2014 Annual Report

Following extensive review, the Board has concluded that the 2014 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,

When we last reported to you, we set out our planned areas of focus for 2014.

These included:

- considering the effectiveness of our major capital project management, and cost forecasting;
- conduct an assurance mapping exercise; and
- ensuring our controls and risk management processes are embedded within our international locations.

Our work during 2014 has, as planned, focused on these areas: PwC, our internal auditor, conducted a review of our project management controls, processes and governance associated with our Kraken project, and a third party has been commissioned to give assurance to the Board as the Kraken project progresses. Additionally, we have overseen the development of an assurance map which was considered by the Committee and Board in the March meeting, and have had regular updates from management in respect of the controls and processes being developed in our newly acquired businesses.

Unsurprisingly, the significant decline in the oil price, and resulting pressure on EnQuest's cash flows and covenants, has necessitated that the Committee pay particular attention to how the Company has responded, and the appropriateness of the going concern assumption. The market conditions have increased the risk in respect of judgements and estimates made in the financial statements, and our work during the year has responded to this. Details of these judgements and estimates, and how we satisfied ourselves as to their appropriateness, are set out in detail below, together with further information on how the Committee discharged its responsibilities during the year.

Looking ahead into 2015 we will continue to monitor closely the Group's financial liquidity, and will maintain our focus on ensuring the controls and risk management processes within the Group are embedded appropriately within our Malaysia business.

Jock Lennox
Chairman of the Audit Committee
18 March 2015

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 Corporate governance. 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;
- consider whether the Annual Report and Accounts is fair, balanced and understandable;
- 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 auditor;
- monitor whether any calls had been made to the externally facilitated 'Speak Up' reporting line;
- establish the external auditor remuneration;
- monitor the external auditor independence;
- monitor the policy on the 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 46 and 47. 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 2014 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox (Committee 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	3/3

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer and the Group Financial Controller and the external auditor. The Chief Executive and Chairman of the Board also attend the meetings when invited to do so by the Committee. PwC, in their role as internal auditor during 2014, 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.

AUDIT COMMITTEE REPORT CONTINUED

Meetings during 2014
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 2014	Dec 2014	March 2015
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 2015		✓	
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 the Competent Person's independence and objectivity			✓
Internal control update for international locations	✓	✓	
Appropriateness of going concern assumption	✓		✓
Review of Corporate Risk Register	✓		✓

* Ernst & Young LLP

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 auditor, who both provide reports to the Audit Committee in respect of these areas at each Committee Meeting. The main areas considered during 2014 are set out below:

Significant financial statement reporting issue	Consideration
Going concern The Group's assessment of the going concern assumption is based on detailed cash flow and covenant forecasts. These are, in turn, underpinned by forecasts and assumptions in respect of: - production forecast for the next two years, based on the Group's latest risked production forecast; - the oil price; - opex and capex forecasts based on the approved 2015 budget and plan; and - other funding activities including certain asset portfolio activities.	The Board regularly reviews the liquidity projections of the Group. In the March Audit Committee meeting, management presented the liquidity analysis to be presented to the Board, a detailed going concern analysis, including sensitivity analysis and stress testing, and explanations and justifications for the key assumptions made. The external auditor presented its findings on the conclusions drawn. This analysis was considered and challenged, in detail, by the Audit Committee, including the appropriateness of the assumptions made. The wording in the Annual Report concerning the going concern assumption (see pages 42 and 43) was reviewed and approved for recommendation to the Board.
Potential misstatement of oil and gas reserves The Group has total proved and probable reserves at 31 December 2014 of 220.0 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.

Significant financial statement reporting issue	Consideration
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 2014, a total of $3.7 billion had been capitalised in respect of tangible oil and gas assets, $0.2 billion in respect of exploration & evaluation assets and $0.2 billion in respect of goodwill, the recovery of which is dependent upon the expected cash flows of the underlying assets. Owing to the significant decline in the oil price, impairment testing has been performed resulting in an impairment of $0.7 billion of tangible oil & gas assets, and $0.1 billion of exploration & evaluation assets. No impairment of goodwill was required. These impairment tests are underpinned by assumptions regarding: - 2P reserves (as audited by Gaffney Cline); - oil price assumptions (forward curve until 2018 and $85 real thereafter); - life of field opex and capex; and - a discount rate driven by EnQuest's weighted average cost of capital.	Management presented to the Committee in the March meeting, the key assumptions made in respect of impairment testing, and the result thereof. The Committee considered and challenged these assumptions. 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 $450 million at 31 December 2014, 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, the discount rate assumed, and the timing of decommissioning activities. In 2013 the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each of our operated fields and facilities. These estimates underpin the 2014 provision. Estimates for Kittiwake have been internally developed by appropriately qualified personnel, and the estimates in respect of other similar assets have informed this exercise. The estimate for PM8 was also internally developed, but has been reviewed for reasonableness by a third party. For Alba, our non-operated asset, the provision is based on the estimates provided by the operator.	We reviewed the report by management summarising the key findings and their impact on the provision. We also challenged the appropriateness of the reduction in the discount rate from 5% to 3%, and were satisfied in this respect. 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 2014 totalling $1.4 billion of tax assets (primarily comprised of tax losses) and $1.9 billion 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.
Accounting for Derivatives The Group undertook a significant volume of commodity and foreign exchange hedging, through a variety of put and call options and swaps, and gains totalling $65 million have been recognised in the income statement during 2014. Hedge accounting has been applied to the put options entered into to hedge 2015 production, and gains of $156 million have been deferred in equity. Appropriate effectiveness testing and documentation has been prepared to support this. All contracts have been marked to market and accounted for in accordance with EnQuest's accounting policy.	The Committee ensured it was kept informed of the hedging activity undertaken during the year. In the March Committee meeting we considered the paper prepared by management outlining the accounting treatments adopted for the various transactions. In assessing the appropriateness of the treatments applied, we also considered the findings of EY's audit in this respect.

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 auditor, considering the reports issued by our external auditor, and through the reports issued by management in respect of internal controls. Furthermore, 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 auditor, 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. During 2014 internal audit undertook various projects, including:

- assisting management in the enhancement of the Group's Risk Management Framework, processes and governance;
- a review and assessment as to the maturity of the Kraken project definition, appropriateness of scoping and how well the critical areas of the project were scoped and comparison to industry best practice. It focused on whether management exercises effective control to enable the delivery of a major capital project across its lifecycle and on the identification of gaps; and
- a follow up on findings from a previous HR audit.

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 and following a re-tender process in 2013 PwC were appointed to act as our internal auditor. The Committee remains satisfied that outsourcing this function, rather than building an in-house team, remains the most appropriate action for a company of this size. We will continue to keep this under review.

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 auditor. 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 2015, the Committee took note of the reduction from the prior year in the absolute size of non-audit fees (from $361,000 in 2013 to $ 226,000 in 2014 (representing 55% of the total audit fees)). The Committee continues to expect the ratio of non-audit to audit to remain below 1:1 going forward.

Use of external auditor for non-audit services
The Audit Committee and Board believe that the external auditor's independence and objectivity can potentially be affected by the level of non-audit services to EnQuest. However, the Committee acknowledges that certain work of a non-audit nature is best undertaken by the external auditor. To ensure objectivity and independence, 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 auditor provides 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 auditor 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. At the August 2014 meeting the Committee approved the rotation of the EY audit partner, which takes effect with the completion of the 2014 audit. The Committee is aware that the Financial Reporting Council is considering the implications of the European Union's rules in respect of mandatory rotation of auditors, and will amend our policy to conform when the guidance in the UK is clear.

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 to confidentially raise any concerns about business practices through an independently appointed third party. Any concerns raised under these arrangements or otherwise are investigated promptly by the General Counsel and notified to the Chairman of the Audit Committee, with follow-up action being taken as soon as practicable thereafter. As noted on page 54 of the Corporate Governance Statement there have been a limited number of instances where such issues have been elevated and the Committee has been kept appraised of how these have been addressed.

DIRECTORS' REMUNERATION REPORT

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 2014.

The report has three main sections:

1. **Governance** of remuneration at EnQuest.
2. The key elements of the **Policy Report** which was approved by shareholders at the 2014 Annual General Meeting (AGM) and took effect from January 2014. This sets out the policy for the remuneration of Directors for the current and future financial years
3. The **Remuneration Report** of the Executive Directors and Non-Executive Directors during 2014 which will be subject to an advisory shareholder vote at the 2015 AGM.

The Remuneration Committee aims to ensure 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 the Committee believes that the current remuneration policy continues to meet these objectives, and for this reason, we are not proposing any changes to the policy for 2015.

Performance and reward for 2014

A good performance against most of the Company's 2014 performance scorecard was in contrast to continued delay of the Alma/Galia development and in particular to the sharp decline in the global price of oil in the second half of the year and its consequential negative impact on EnQuest's share price.

Underlying performance by EnQuest Management against Company metrics related to financial results, production, reserves additions and progress on the Kraken project was good but was offset by the delay to the start-up of the Alma/Galia field and the fall in share-price. Management took swift action in response to the decline in oil price by cutting current and future operating and capital expenditures.

Overall performance by the Company was assessed by the Remuneration Committee to be marginally below the challenging targets set by the Board. Remuneration outcomes for the Executive Directors are therefore commensurate with the assessed level of performance.

2014 Bonus

The Executive Directors' bonus awards are based on a combination of financial and operational results and the achievement of strategic and personal objectives. Awards of 55% of base salary (24% of maximum) for Amjad Bseisu and 81% for Jonathan Swinney (36% of maximum) have been made in respect of 2014 (paid 2/3rd in cash and 1/3rd in shares). Further details of how these awards were determined are set out on pages 65 to 67. Despite the external challenges faced by the industry, the Committee considers these levels of awards to be appropriate for the strong operational results and the delivery against the basket of measures set by the Board at the beginning of the year.

2012 Performance Share Plan ('PSP') award

The 2012 PSP award, which had a three-year performance period ending 31 December 2014, vested at 79.4% 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 partially met (5.6% CAGR versus maximum of 10.0% over the three year period). Details on the satisfaction of these performance conditions are included in the report.

Executive Director remuneration for 2015

Base salaries

For 2015, base salaries have been frozen for the Executive Directors in line with approach taken for all employees across the Company.

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 2015, relating to the 2014 performance year, the Committee felt that it was appropriate to grant levels of awards equivalent to 118% of base salary for both Amjad Bseisu and Jonathan Swinney. These grants have been set at 59% of the normal maximum award and reflect the Committee's view of company performance in 2014 as well as recognising the recent reduction in share price.

The Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of any significant future changes to remuneration policy. It remains the Committee's intention that the policy which shareholders approved at the 2014 AGM will remain in operation for the full three years.

We are committed to transparent communication and I hope you find this report of the Committee's work comprehensive, clear and understandable. On behalf of the Board, I would like to thank shareholders for their continued support in this challenging time for the industry. I hope you will support the resolution to vote for this Directors' Remuneration Report and look forward to receiving this at the forthcoming AGM.

Helmut Langanger
Chairman of the Remuneration Committee
18 March 2015

DIRECTORS' REMUNERATION REPORT 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.

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 2014

The Committee normally meets at least twice per year. During 2014 it met three times to review and discuss base salary adjustments for 2014, the setting of Company performance and related annual bonus for 2013, the satisfaction of performance conditions relating to the 2011 Performance Share Plan ('PSP') and the approval of new share awards.

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

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 adviser by the Committee in 2013; and
- the Company Secretary acts as secretary to the Committee (Stefan Ricketts).

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

POLICY SECTION

This section sets out the principles behind our remuneration policies and the key elements of the remuneration policy for the Executive Directors that was approved by shareholders in May 2014.

The full policy is as disclosed in the 2013 Report and Accounts with minor amendments made to elements included in this report to update it to reflect the now approved policy.

Remuneration principles

In determining the remuneration policy 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 shareholder's interests.
2. Fair, reflective of best practice, and market competitive.
3. Comprise of fixed pay, currently 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), a Long Term Incentive Plan (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.

The following table is a reminder of EnQuest's remuneration policy which became binding 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 or 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 – 225% of salary 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%.

DIRECTORS' REMUNERATION REPORT
CONTINUED

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.	▸ Normal maximum – 200% of salary. ▸ Exceptional maximum – 300% of salary subject to shareholder approval for changes to the PSP Share Plan rules at a future AGM.	The metrics used currently are: ▸ Relative TSR performance. ▸ Production growth per share. ▸ Reserves growth per share. ▸ The Remuneration Committee determines the weightings for the PSP each year. ▸ 25% of the TSR component 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.

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.

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. Set as follows for three years: Chairman: £220,000 Director fee: £50,000 Senior Independent Director: £10,000 Committee Chairmen: £10,000	▸ None

Remuneration outcomes in different performance scenarios
The charts below set out an illustration of the remuneration arrangements for 2015 in line with the remuneration policy described on pages 61 to 63. 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; and ▸ no vesting under the annual bonus plan.
Target performance	▸ fixed remuneration; ▸ 100% of annual base salary as annual bonus; and ▸ 30% vesting under the PSP.
Maximum performance	▸ fixed remuneration; ▸ 225% of annual base salary as annual bonus; and ▸ 100% vesting under the PSP.

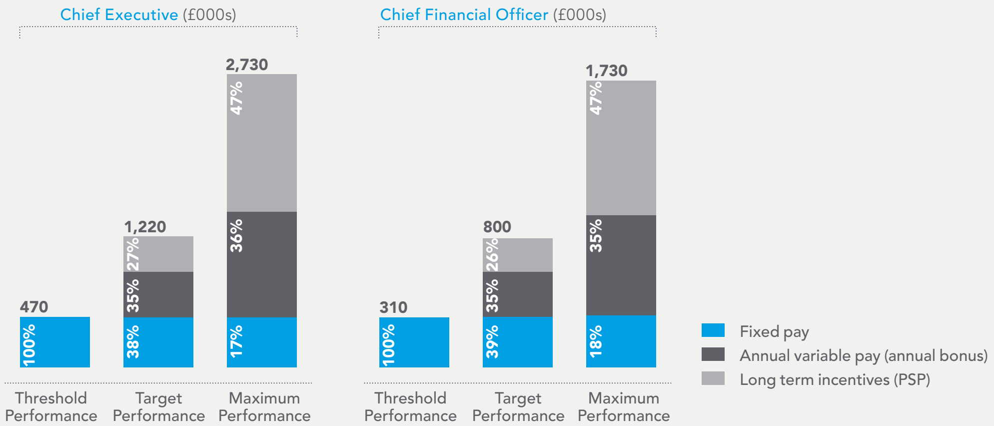
Fixed pay for 2014 will comprise the following elements:

	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 2015 to 31 December 2015;
- cash in lieu of pension is as described in the emoluments table; and
- benefits relates to the premium for private medical insurance for each Director.

DIRECTORS' REMUNERATION REPORT
CONTINUED

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



Note: Fixed pay includes salary and taxable benefit values.

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.

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.

ANNUAL REPORT ON REMUNERATION FOR 2014 (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 2014 and 2013 and it includes a single total figure for each Director:

	2014 'single figure' of remuneration – £000s					
Director	Salary and fees 2014	All taxable benefits 2014	Annual bonus 2014[1]	LTIP 2014[2]	Pension 2014[3]	Total for 2014
Amjad Bseisu	430	1	236	198	40	905
Jonathan Swinney	280	1	228	128	30	667
Total	**710**	**2**	**464**	**326**	**70**	**1,572**

	2013 'single figure' of remuneration – £000s					
Director	Salary and fees 2013	All taxable benefits 2013	Annual bonus 2013[1]	LTIP 2013[4]	Pension 2013[3]	Total for 2013
Amjad Bseisu	410	1	410	500	40	1,361
Jonathan Swinney	264	1	267	279	30	841
Total	**674**	**2**	**677**	**779**	**70**	**2,202**

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. PSP awarded on 18 April 2012 vested on 19 April 2015. The LTIP value shown in the 2014 single figure is calculated by taking the number of performance shares that have vested (79.4% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2014 and 31 December 2014, as the share price on 19 April 2015 was not known at the time of this report.
3. Cash in lieu of pension and other benefits.
4. PSP awarded on 18 April 2011 vested on 19 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 share price on that date. The equivalent number in the 2013 report was estimated using the average value of the EnQuest share price between 1 October 2014 and 31 December 2014, as the share price on 19 April 2014 was not known at the time of that report.

DIRECTORS' REMUNERATION REPORT CONTINUED

Arrangements for Nigel Hares

During 2014, Nigel Hares continued to provide consultancy support as an adviser to the Chief Executive since stepping down from the Board on 9 November 2012. The total amount of payments made to Nigel Hares in relation to his consultancy services in 2014 was £298,250.

The remuneration of the Non-Executive Directors for the years 2013 and 2014 is made up as follows:

	2014 'single figure' of remuneration – £000s		
Director	Salary and fees 2014	All taxable benefits 2014	Total for 2014
Dr James Buckee	220	–	220
Helmut Langanger	70	–	70
Jock Lennox	60	–	60
Clare Spottiswoode	50	–	50
Phil Nolan	50	–	50
Total	**450**	**–**	**450**

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

Annual bonus

The Executive Directors' annual bonus for 2014 was based fully on the Company performance contract for both Amjad Bseisu and Jonathan Swinney (who also had strategic and functional objectives comprising his individual performance contract).

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 Remuneration Committee consider the Company's annual bonus targets to be commercially sensitive, and has therefore chosen not to disclose them.

Performance Contract EnQuest (Amjad Bseisu)			Performance outcome		
Category	Weighting	Measure	Below threshold	On Target	At or above stretch
Financial	15%	EBITDA		✓	
		Opex/BOE		✓	
		Capex		✓	
		US Bond Issue			✓
Production	25%	2014 Production		✓	
Reserves	10%	2P Net Reserve Additions		✓	
Alma/Galia	20%	Start-up Date	✓		
Kraken	20%	Project Capex		✓	
Share Price	10%	Absolute & relative performance	✓		
HSEA	Override	Basket of leading & lagging indicators			✓

Performance Contract Jonathan Swinney			Performance outcome		
Category	Weighting	Measure	Below threshold	On Target	At or above stretch
Financial	30%	EBITDA Opex/BOE Capex		✓ ✓ ✓	
Strategic Development	20%	US Bond Issue			✓
Organisation	20%	Finance Team capability		✓	
External Relations	10%	Shareholder register		✓	
Cost & Value	15%	Cost optimisation		✓	
HSEA	5%	Basket of indicators			✓

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

Name	Annual bonus for 2014	% of base salary	% of maximum
Amjad Bseisu	£235,500	55%	24%
Jonathan Swinney	£228,000	81%	36%

Two-thirds of the amounts above have been paid in cash in March 2015. The remaining one-third was converted to EnQuest shares on the date of the award and deferred until March 2017. There are no additional performance conditions attached to this deferral as they have already been met.

PSP

The performance period for the 2012 PSP award completed on 31 December 2014 and the award vested in April 2015. The results of the performance conditions for the 2012 PSP award are as follows:

			Performance conditions & weighting			
Grant date	Vesting date	Performance period	EnQuest TSR[1]	Production	Reserves	Total award
19 Apr 2012	19 Apr 2015	1 Jan 2012 – 31 Dec 2014	33.4%	33.3%	33.3%	100%
Base level			–	23,698 Boepd	115.2 MMboe	
Threshold			Median (19th position)	27,433 Boepd	126.7 MMboe	
Maximum			Upper quartile (9th position)	31,542 Boepd	172.8 MMboe	
Actual performance achieved			Above upper quartile (7th position)	27,895 Boepd	220.0 MMboe	
Percentage meeting performance conditions & total vest			100%	38.2%	100%	79.4%

Note:
1 EnQuest TSR of -35.4% for the performance period was in the upper quartile (-40%) of the comparator group companies.

The table below shows the number of nil cost options that vested and their value at 31 December 2014. This figure is calculated taking the average closing share price on each day of the period 1 October 2014 – 31 December 2014 and is used as the basis for reporting the 2014 'single figure' of remuneration.

Name	No. of shares	Portion vesting	No. of shares vesting	Average share price	Value at 31 Dec 2014 £'000s
Amjad Bseisu	391,790	79.4%	311,081	£0.6355	198
Jonathan Swinney	254,663		202,202		128

2015 PSP Awards

After due consideration of business performance in 2014, the Remuneration Committee will award the Executive Directors the following performance shares in April 2015.

The level of awards reflect 74% of the normal maximum and are lower than the awards made for the previous year (100% of maximum for Amjad Bseisu and 91% of maximum for Jonathan Swinney).

	Face value (% of salary)	Face value as at 31 Dec 2014	Performance period
Amjad Bseisu	118%	£509,000	1 Jan 2015 – 31 Dec 2017
Jonathan Swinney	118%	£332,000	

DIRECTORS' REMUNERATION REPORT CONTINUED

Summary of performance measures and targets

The 2010 PSP share awards granted in April 2015 have three sets of performance conditions associated with them, over a three year financial performance period:

- 30% of the award relates to TSR against a comparator group of 26 oil and gas companies listed on the FTSE 350, FTSE ALL-Share AIM Top 100 and Stockholm NASDAQ OMX;
- 20% relates to production growth per share; and
- 50% relates to reserves growth per share.

PSP vesting schedule

	Relative TSR		Production growth per share (over three years)		Reserves growth per share	
	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 12% C.A.G.*	0%	Less than 100% of base	0%
Threshold	Median	25%	12% C.A.G.*	30%	100% of base	50%
Target	–	–	–	–	105% of base	75%
Maximum	Upper quartile	100%	20% C.A.G.*	100%	110% of base	100%

* Compound Annual Growth

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
2014	24,222 Boepd	194.8 MMboe
2015	27,895 Boepd	220.0 MMboe

The comparator group companies for the TSR performance condition relating to the 2014 PSP award were as follows:

FTSE 350	FTSE ALL-Share	FTSE AIM – Top 100	Stockholm NASDAQ OMX
Afren	Exillion	Amerisur Resources	Africa Oil
Cairn Energy	Hardy Oil & Gas	Faroe Petroleum	Blackpearl Resources
Nostrum	Salamander	Igas Energy	Lundin Petroleum
Ophir Energy		Ithaca Energy	PA Resources
Premier Oil		Lekoil	Shelton Petroleum
Soco International		Parkmead Group	Tethys Oil
Tullow Oil		Petroceltic International	
		Quadrise Fuels	
		Rockhopper Exploration	
		Xcite Energy	

The number of PSP awards outstanding as at 31 December 2014 are as follows:

	No. of shares awarded	Performance period	Performance conditions (& weighting)	Vesting date
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%)	
Grant date April – 2014			TSR (34%)	
Amjad Bseisu	604,990	1 Jan 2014 – 31 Dec 2016	Production growth (33%)	22 April 2017
Jonathan Swinney	368,147		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 2015.

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[1] 2013	Granted	Vested[2]	Lapsed	31 December 2014	Vesting period	Expiry date
Amjad Bseisu	804,531	–	–	–	804,531	1 Apr 2012 – 1 Apr 2014	31 Mar 2020
	295,662	–	–	–	295,662	19 Apr 2012 – 19 Apr 2014	18 April 2020
Jonathan Swinney	268,176	–	–	–	268,176	1 Apr 2012 – 1 Apr 2014	31 March 2020
	81,693	–	–	–	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. No RSP shares are shown to have vested during 2014 as the Remuneration Committee determined in March 2014 that Executive Directors would not be able to exercise more than 50% of vested shares until the Alma/Galia field started production.

PSP	31 December 2012	Granted	Vested[1]	Lapsed	31 December 2014	Vesting period	Expiry date
Amjad Bseisu	583,090	–	194,363	194,364	194,363	19 Apr 2011 – 19 Apr 2014	18 April 2021
	391,790[2]	–	–	–	391,790	19 Apr 2012 – 19 Apr 2015	18 April 2022
	490,000	–	–	–	490,000	29 Apr 2013 – 29 Apr 2016	28 April 2023
	604,990	–	–	–	604,990	22 Apr 2014 – 22 Apr 2017	22 April 2024
Jonathan Swinney	324,975	–	108,325	108,325	108,325	1 Apr 2012 – 1 Apr 2014	18 April 2021
	254,663[2]	–	–	–	254,663	19 Apr 2012 – 19 Apr 2015	18 April 2022
	300,000	–	–	–	300,000	29 Apr 2013 – 29 Apr 2016	28 April 2023
	368,147	–	–	–	368,147	22 Apr 2014 – 22 Apr 2017	22 April 2024

Notes:
1. Two-thirds of the Performance Conditions of the 2011 PSP award were achieved, however, only 50% of this amount is shown to have vested during 2014 due to the Remuneration Committee determining in March 2014 that Executive Directors would not be able to exercise more than 50% of vested shares until the Alma/Galia field started production
2 As shown on page 67, 79.4% of this award will vest on 19 April 2015.

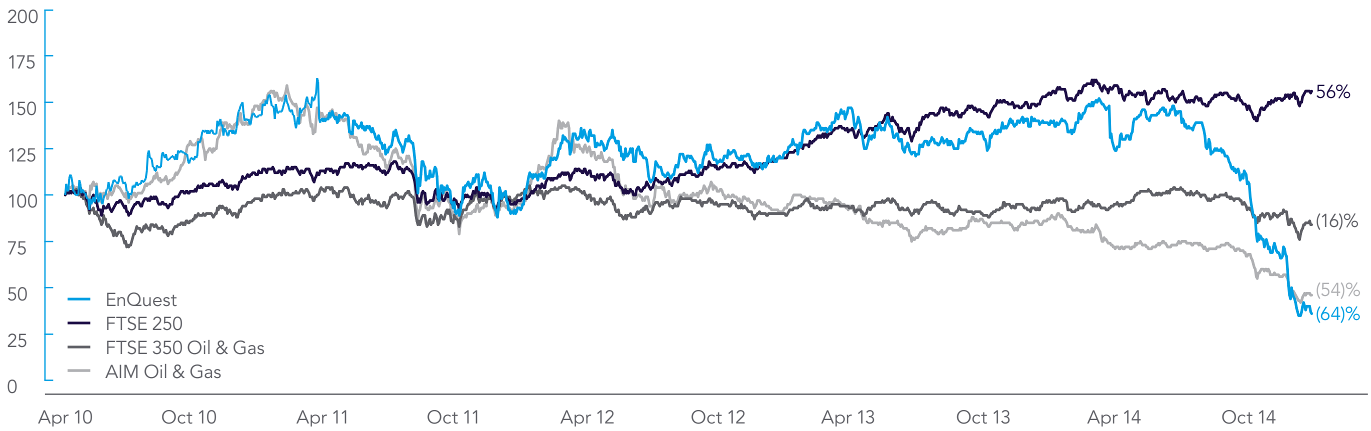
The tables above show the maximum number of shares that could be released if awards were to vest in full. The PSP awards first vest on the third anniversary of the award date, subject to the achievement of performance. The temporary cap applied at the discretion of the Remuneration Committee on only 50% of the Executive Directors vested shares being made available for exercise under the RSP and PSP is anticipated to be rescinded upon the successful start-up of the Alma/Galia field.

	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 2014
Amjad Bseisu	71,405,331	10,553%	1,681,144	1,100,193	1,100,194	–	75,286,862
Jonathan Swinney	62,033	14%	1,031,135	349,870	349,871	–	1,792,909
Dr James Buckee	3,488,424	–	–	–	–	–	3,488,424
Helmut Langanger	–	–	–	–	–	–	–
Jock Lennox	20,000	–	–	–	–	–	20,000
Clare Spottiswoode	19,560	–	–	–	–	–	19,560
Phil Nolan	150,000	–	–	–	–	–	150,000

DIRECTORS' REMUNERATION REPORT CONTINUED

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, FTSE 350 Oil & Gas Producers Index and the AIM Oil & Gas Top 100 Index also measured by total shareholder return. The FTSE 350 Oil & Gas Index and AIM Oil & Gas Top 100 have been selected for this comparison as it is one of the indices 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 65.

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

	£'000s				
	2010	2011	2012	2013	2014
'Single figure' of total remuneration	3,004	731	910	1,361	905
Annual bonus as a % of maximum	80%	42%	60%	50%	24%
Long term Incentive vesting rate as a % of maximum	–	–	–	67%	79%

Notes:
1. Company was formed on 5th April 2010. 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.
3. The 2013 'Single Figure' has been restated to reflect the actual share price on the date the long term incentives vested.

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	2013 US$M	2014 US$M
EBITDA	621	581
Distribution to shareholders	0	0
Total employee pay	108	107

How the Chief Executive's pay relates to the workforce

	Base Salary £'000	Bonus £'000	Benefits £'000
Change between 2013 and 2014	%	%	%
Amjad Bseisu	3.8	–14	0
All employees (average)	3.4	–4	10

Statement of implementation of remuneration policy in 2014

Base salary and 2015 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 2015:

Name	Salary for 2014	Salary for 2015	% increase
Amjad Bseisu	£430,000	£430,000	0.0%
Jonathan Swinney	£280,000	£280,000	0.0%

In line with the approach taken for all employees salaries for both Amjad Bseisu and Jonathan Swinney were not increased due to the challenging market conditions.

Annual bonus

The annual bonus scheme for 2015 is unchanged in terms of structure:

- Executive Directors (and other Executive Management) will have threshold, target, and stretch performance levels 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 can be up to 225% of annual base salary applicable in the year of performance; and
- stretching targets continue to apply at maximum.

The 2015 metrics and weightings, which determine will affect the level of short term incentive awards for the Directors are set out below:

Company 2015 performance measures scorecard

Category	Weighting
Financial targets	20%
Production	25%
Reserves	5%
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 2015 performance measures scorecard is the same as the Company scorecard.

Jonathan Swinney 2015 performance measures scorecard	Weighting
Financial results	20%
Group Financing	50%
Organisation	20%
Shareholders	10%

The choice of performance targets for 2015, 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	On-target performance	0.8–1.2	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 2014, and the performance of the Executive Directors, as well as other factors, the Remuneration Committee decided to award grants equal to 118% of salary to both Amjad Bseisu and Jonathan Swinney. These awards will be granted in April 2015.

DIRECTORS' REMUNERATION REPORT CONTINUED

The weightings approved by the Remuneration Committee were incorrectly shown and are as follows:

- 30% of the award relates to TSR;
- 50% relates to production growth per share; and
- 20% relates to reserves growth per share.

Summary of performance measures and targets
The PSP share awards granted in April 2015 have three sets of performance conditions associated with them over a three year financial period:

- 30% of the award relates to TSR against a comparator group of 26 oil and gas companies listed on the FTSE 350, FTSE All –Share, AIM Top 100 and Stockholm NASDAQ OMX;
- ~~20% relates to production growth per share; and~~
- ~~50% relates to reserves growth per share.~~

PSP vesting schedule

	Relative TSR		Production growth per share (over three years)		Reserves growth per share	
	Performance	Vesting	Performance	Vesting	Performance	Vesting
Threshold	Below median	0%	Less than 12% C.A.G.*	0%	Less than 100% of base	0%
	Median	25%	12% C.A.G.*	30%	100% of base	50%
Target	–	–	–	–	105% of base	75%
Maximum	Upper quartile	100%	20% C.A.G.*	100%	110% of base	100%

* Compound Annual Growth

Performance target base levels

Year of grant	Production growth per share base level	Net 2P Reserves growth per sharebase level
2015 proposed	27,895 Boepd	220.0 MMboe

TSR comparator group

FTSE 350	FTSE ALL-Share	FTSE AIM – Top 100	Stockholm NASDAQ OMX
Afren	Exillion	Amerisur Resources	Africa Oil
Cairn Energy	Hardy Oil & Gas	Faroe Petroleum	Blackpearl Resources
Nostrum	Salamander	Igas Energy	Lundin Petroleum
Ophir Energy		Ithaca Energy	PA Resources
Premier Oil		Lekoil	Shelton Petroleum
Soco International		Parkmead Group	Tethys Oil
Tullow Oil		Petroceltic International	
		Quadrise Fuels	
		Rockhopper Exploration	
		Xcite Energy	

Consideration by the Directors of matters relating to Directors' remuneration

During 2014 New Bridge Street (part of Aon plc) continued to provide advice to the Remuneration Committee on appropriate types and levels of award for the Directors. New Bridge Street had been selected by the Chairman of the Remuneration Committee during 2013 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 £11,748 (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 28 May 2014. 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
Remuneration Policy	438,025,705	98.67	5,912,386	1.33	443,938,541	15,867,495
Remuneration Report	445,339,754	97.99	9,113,580	2.01	454,453,334	5,352,702

Helmut Langanger
Chairman of the Remuneration Committee
18 March 2015

NOMINATION COMMITTEE REPORT

Dear Shareholder,

The main work of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, expertise and experience in order to support the strategy of the Company. We achieve this by continuously reviewing the Board composition and skills and ensuring that strong succession planning is in place.

Currently the Board consists of five Non-Executive Directors and two Executive Directors, who collectively bring a diverse mix of skills and experience to the Company and collaborate to form a strong leadership.

During 2014, the Board has continued to remain stable, with no changes made to composition. The Committee has spent time this period focusing on succession planning for the Board and Executive Committee, reviewing the balance of skills currently on the Board and also considering gender diversity issues.

Next year we shall continue to focus on succession planning of both the Executive and Non-Executive Directors, to ensure that we have strong contingency plans in place and continue to have a broad mix of skills and expertise within the Board.

Dr James Buckee
Chairman of the Nomination Committee
18 March 2015

Nomination Committee membership

The Nomination Committee remains unchanged from last year and 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	1/1

Main responsibilities

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

Appointment of Directors

We apply a formal, rigorous and transparent procedure for appointments of new Directors to the Board, and ensure independence by using an external consultancy services firm, which has no connection with the Company. 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.

NOMINATION COMMITTEE REPORT CONTINUED

Committee activities for the year

The Nomination Committee met once in 2014 and its key activities included:

- **Succession planning –** The Committee focused on succession planning, so whilst the Company is still relatively young, and it is not felt that the independence of Non-executive Directors is compromised, we spent time reviewing the succession plans for the Board. The Nomination Committee also focused on the succession of Senior Management, to ensure that the Board, and principally the Chief Executive, remain fully supported in the implementation of the Company strategy. The Board and Nomination Committee remain 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. 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.
- **Skills and expertise analysis –** We conducted an analysis of Board skills and experience this period to identify any potential gaps, the results of which are outlined below. We are pleased to report that following our analysis the Board and Nomination Committee remain satisfied that we have the correct balance of skills, expertise and experience needed in order to effectively support the Company's objectives and strategy.
- **Review of diversity policy** – the Board has followed the progress made with regards to the recommendations of the 2011 Lord Davies report 'Women on Boards', and we have reviewed our policy on gender diversity. Currently the Board consists of two Executive Directors and five Non-Executive Directors. Six of the Board members are male and one is female. Following a review of our approach to gender diversity, we confirm that whilst we work hard to ensure that we recruit from a diverse background of candidates, not just in relation to gender, we will continue to recruit the best candidate available for the job, without the Board's decision being influenced by a need to fulfil certain quotas. We believe that our gender statistics are representative of the demographics of the wider oil and gas industry.

Board skills and experience:	
Oil and Gas experience	70%
Engineering	60%
Finance	25%
Capital Markets	25%
Regulatory and governance	15%
HSE&A	65%
Operational and strategic	90%

Priorities for the coming year

The main focus of the Committee in 2015 will be to strengthen the composition of the Board by appointing a Non-Executive Director with significant experience in capital projects within the oil and gas industry. The Company is currently working with Heidrick & Struggles, a reputable executive search firm, to identify suitably qualified candidates with the depth of experience necessary to complement the existing skills that the Board have in this key area.

Other priorities include ensuring that the Company's organisation is both efficient and capable in its principal activities, as well as undertaking the annual review of Chief Executive and other Senior Management succession plans.

Re-election to the Board

Following a formal review of the effectiveness of the Board, the Nomination Committee confirms that it is satisfied with the performance and of the time commitment of each Non-Executive Director throughout the year. We remain confident that each of them is in a position to discharge their duties to the Company in the coming year and to 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 46 and 47. As detailed in the 2015 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.

DIRECTOR'S REPORT

The Directors of EnQuest present their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2014. These will be laid before shareholders at the AGM to be held on Wednesday 27 May 2015.

Future developments
A summary of the future developments of the Company are provided within the Strategic Report on page 21.

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 52 to 54.

Results and dividends
The Group's financial statements for the year ended 31 December 2014 are set out on pages 78 to 124.

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 46 and 47. All of the current Directors served throughout the year.

All the Directors will offer themselves for re-election at the AGM on 27 May 2015, in accordance with the UK Corporate Governance Code provision for annual re-election of all directors of FTSE 350 companies.

Employee involvement
EnQuest operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulation 2005. Employees are informed about significant business issues and other matters of concern via regular Town Hall meetings, by using webcasts on EnQuest's intranet, as well as face to face briefing meetings at each business location. Appropriate consultations take place with employees when business change is undertaken. EnQuest offers employees the opportunity to participate directly in the success of the Company and employees are encouraged to invest in the Company through participation in a number of share schemes such as the Save as You Earn (SAYE) Share Scheme which is open to all EnQuest employees.

EnQuest remains committed to fair treatment of people with disabilities in relation to job applications: full consideration is given to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirement of the job. Additionally, we offer opportunities to disabled employees for training, career development and promotion. In the event of an existing employee becoming disabled, it is EnQuest policy to provide continuing employment whenever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

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

Name	At 31 December 2013	**At 31 December 2014**	At 18 March 2015
Amjad Bseisu[1]	70,797,182	**71,405,331**	71,405.331
Dr James Buckee	1,222,327	**3,488,424**	3,488,424
Helmut Langanger	0	**0**	0
Jock Lennox	0	**20,000**	20,000
Phil Nolan	0	**150,000**	150,000
Clare Spottiswoode	0	**19,560**	19,560
Jonathan Swinney	62,033	**62,033**	520,228

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 (2014: 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 106. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2014 or up to and including 18 March 2015, being the date of this Directors' Report.

Company share schemes
Between April 2014 and September 2014, the trustees of the Group Employee Benefit Trust (the 'Trust') purchased 8,039,048 Ordinary shares to satisfy future employee share awards. At year end, the Trust held 3.69% of the issued share capital of the Company (2014: 1.97%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

DIRECTOR'S 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 2014	% of issued share capital held at 31 December 2014	Number of Ordinary shares Held as at 18 March 2015	% of issued share capital held as at 18 March 2015
Baillie Gifford & Co Ltd	72,706,379	9.06	74,040,638	9.22
Amjad Bseisu and family[1]	71,405,331	8.90	71,405,331	8.90
Schroders Plc	62,873,763	7.83	71,140,670	8.86
Deutsche Bank AG	–	–	49,665,425	6.19
Aberdeen Asset Management Group	41,422,437	5.16	41,492,150	5.17
Swedbank Robur Fonder AB	39,749,295	4.95	39,763,791	4.95
Montanaro Asset Management Limited	31,913,096	3.98	29,902,500	3.73
EnQuest Employee Benefit Trust	29,691,691	3.70	29,611,183	3.69
Norges Bank Investment Management	28,888,522	3.60	29,526,739	3.68

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 20 and 21.

Annual General Meeting
The Company's AGM will be held at Café Royal Hotel, 68 Regent Street, London W1B 4DY on 27 May 2015. 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 125.

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;
- Kittiwake;
- Drilling rigs under the control of EnQuest for exploration and appraisal purposes; and
- All land based offices.

All six greenhouse gases are reported as appropriate.

Total emissions within operational control
596,696 tCO_2e

Intensity ratio
49.57 $kgCO_2e$/BOE

Where BOE = barrel of oil equivalent.

Global GHG emissions data for period 1 January to 31 December 2014

	2013 (Baseline)** (tCO_2e)	2013 (Baseline)** (% Total Emissions)	2014 (tCO_2e)	2014 (% Total Emissions)
Scope 1 – Nat Gas Combustion	144,657	27.49%	202,963	35.61%
Scope 1 – Nat Gas Flare	208,350	39.59%	220,158	38.63%
Scope 1 – Diesel	119,248	22.66%	79,741	13.99%
Scope 1 – Nat Gas Vent	41,600	7.90%	42,542	7.46%
Scope 1 – Refrigerant Losses	57	0.01%	347	0.06%
Scope 1 – Fugitive	468	0.09%	324	0.06%
Scope 1 – Drilling Rigs	10,970	2.08%	22,754	3.99%
Scope 1 – Office Refrigerants	0	0.00%	0	0.00%
Scope 1 – Natural Gas – London Office	22	0.00%	22	0.00%
Scope 2 – Office Electricity	933	0.18%	1,117	0.20%
Totals	**526,305**	**100.00%**	**569,968**	**100.00%**
Intensity Ratio: $kgCO_2e$/BOE				
Emissions reported above normalised to per barrel of oil equivalent (gross)	**39.31**	**Not applicable**	**49.57**	**Not applicable**

** Malaysia operations coming under EnQuest's operational control in Q4 2014 have been excluded on the basis of insufficient data. EnQuest is implementing data collection processes to allow full reporting of Malaysian assets in 2015.

** 2013 baseline has been recalculated to account for improved data in respect of Heather/Thistle methane venting and EnQuest taking operational control of the Kittiwake asset.

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.

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; (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; and (c) under the indenture governing the high-yield bonds, if we undergo certain events defined as constituting a change of control, each holder of the high-yield notes may require us to repurchase all or a portion of its notes at 101% of their principal amount, plus accrued and unpaid interest, if any.

Important events subsequent to the year end

Events since the balance sheet date are summarised in note 28 to the financial statements on page 117.

Directors' statement as to disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Responsibility statements under the DTR

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

Independent auditor

Having reviewed the independence and effectiveness of the auditor, the Audit Committee has recommended to the Board that the existing auditor, EY, be reappointed. EY has expressed their willingness to continue as auditor. An ordinary resolution to reappoint EY as auditor 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 38 to 43 and the notes to the financial statements on pages 115 to 117 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 45. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 38 to 43. 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 Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 18 March 2015.

Stefan Ricketts
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 Strategic Report, 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 54 of the Annual Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC

(REGISTERED NUMBER: 07140891)

1. Our opinions arising from our audit

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 2014 and of the Group's loss for the year then ended;
- the Parent Company statements give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group's Financial statements, Article 4 of the IAS Regulation.

2. What we have audited

We have audited the financial statements of EnQuest PLC for the year end ended 31 December 2014, which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, the related Group notes 1 to 29, and related parent Company notes 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the European Union and in accordance with the provisions of the Companies Act 2006 and in the preparation of the Parent Company statements is applicable law and United Kingdom Generally Accepted Accounting Practice and in accordance with the provisions of the Companies Act 2006.

3. Our assessment of risk of material misstatement and response to these risks

We have included in the table below the 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. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

Risks	Our response to these risks
The recent decline in crude oil prices has had a significant impact on the Group financial statements and disclosures. The lower outlook has resulted in material impairments of assets. A significant judgement is oil price assumptions, both in the short and long term. Oil price assumptions impact many areas of financial reporting, including estimation of oil and gas reserve volumes, impairment assessment and decommissioning provision estimates.	In assessing the appropriateness of management's oil price assumptions, we have compared their price assumptions with the latest market evidence available, including forward curves, brokers' estimates and other long term price forecasts. See note 10 of the accounts, where the impairments are discussed and the considerations of the Audit Committee on pages 55–58.
Estimation of oil and gas reserves requires significant judgement and assumptions by management and engineers. These estimates have a material impact on the financial statements, particularly: impairment testing; depreciation, depletion and amortisation (DD&A); decommissioning provisions; and going concern. There is technical uncertainty in assessing reserve quantities.	Our audit procedures have focused on management's estimation process, including whether bias exists in the determination of reserves. We carried out procedures to understand and walkthrough EnQuest's internal process for oil and gas reserves estimation. We assessed the objectivity and competence of both internal and external specialists. We also reviewed the report of the external specialist on the audit of the reserves for the UK North Sea and Malaysia assets as at 31 December 2014. We used the results of these procedures to inform our audit of asset impairment testing, the calculation of depreciation, depletion and amortisation; the calculation of decommissioning provisions; the assessment of going concern and reserve disclosures in the Annual Report and Accounts. See the consideration of the Audit Committee on pages 55–58.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC CONTINUED

(REGISTERED NUMBER: 07140891)

Risks	Our response to these risks
The assessment of the existence of any indicators of impairment of the carrying amount of non-current exploration and production assets is judgemental. In the event that indicators are identified, the assessment of the recoverable amounts of the assets is also judgemental. Overall there has been a material impairment charge that has been recognised during 2014. The impairment charge has primarily been driven by the significant reduction in oil prices and reduced outlook for the long term assumed oil prices.	The principal indicator of impairment was the decline in the oil price. We carried out procedures to understand and walkthrough EnQuest PLC's process for identifying impairment triggers, and considered management's assessment of indicators of impairment. We challenged management's assessment of impairment indicators and whether or not a formal impairment test was required. Where a formal impairment test was necessary, we challenged and audited management's assumptions and sensitivities. This included specifically the determination of cash generating units, cash flow projections, oil prices, production profiles, capital and operating expenditure, discount rates, and sensitivities used. In addition we engaged our business modelling and valuation specialists to assist us in the audit of the impairment charge. We performed detailed audit procedures on the impairment test models including goodwill, intangibles, transfer of costs, comparison to historical data, and past reliability of forecasts. We also used the result of procedures performed in relation to estimation of oil and gas reserves and depletion calculations. See note 10 of the accounts, where the impairments are discussed and the considerations of the Audit Committee on pages 55–58.
We believe that there is more judgement involved in revenue recognition than previous years, mainly as a result of operations in international locations such as Malaysia and the commencement of commodity trading activity.	We performed procedures to understand and walkthrough the process and controls for revenue recognition and calculation. We carried out substantive audit procedures on revenue recognition including transaction testing, review of new sales agreement and contractual terms, cut-off procedures to ensure transactions recorded in correct periods and subsequent receipt tests. We set expectations and performed detailed analytical review procedures on disaggregated sales data including discussion with management and business analysts, review of market prices, challenged any differences to expectations, and identified any significant or unusual trends.
Decommissioning provisions are a judgemental area. They are calculated based on a number of estimates and assumptions that are impacted by future activities, economic climate and the legislative environment in which EnQuest operates. The decommissioning provisions are also affected by changes in the oil and gas reserve estimates and price assumptions which determine the date on which production will cease.	We obtained management's updated decommissioning papers and workings. Our audit procedures focused on assessing the reasonableness of the assumptions used in the calculation of provisions, consistency across assets and the audit of the calculation of the decommissioning charge and unwinding of the discount on the liability. We also assessed appropriateness of the discount rate applied. See note 23 of the accounts, where the provisions are discussed and the considerations of the Audit Committee on pages 55–58.
The Group has a number of uncertain tax positions, which are subject to judgement in relation to interpretation of tax regulations and estimation in recording a provision for any potential cash outflow.	We considered management's interpretation and application of relevant tax law and challenged the appropriateness of management's assumptions and estimates in relation to uncertain tax positions. To assist us in assessing a number of uncertain tax positions, we engaged our tax specialists to advise us on the tax technical issues in order to form a view of the risk of challenge to certain tax treatments adopted.

Risks	Our response to these risks
The going concern assessment, particularly in the light of recent oil price decline and decrease in forecast forward prices.	We performed procedures to understand management's going concern review process. Our audit procedures included: – agreeing the assumed cash flows to the business plan and walking through the business planning process and testing the central assumptions to external data; – agreeing the available facilities and arrangements to underlying documentation; – considering the impact of any delays in the startup of Alma/Galia; – assessing and auditing the sensitivities of the underlying assumptions used in the going concern review; and – comparing future cash flows to historical data, ensuring variations are in line with our expectations and considering the reliability of past forecasts. See the considerations of the Audit Committee on pages 55–58.

4. 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.

We determined materiality of the Group to be $10.5 million (2013: $16 million), which represents approximately 5% of the Group's business performance before taxation (which excludes exceptionals and one-off items). The final business performance profit before tax was higher; however we did not revise our materiality levels upwards. We have calculated materiality with reference to the Group's business performance as we consider this to be one of the principal considerations for members of the Company in assessing the financial performance of the Group, on the basis that business performance excludes exceptionals and one-off items. Business performance is the key earnings measure discussed when the Group presents the financial results. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into qualitative as well as quantitative consideration implicit in the definition.

The oil price declined significantly during the course of our audit. The significant decline was in the fourth quarter of the year and did not have a significant impact on the full year business performance. However there have been a number of material impairments which have been audited individually and in full.

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 (2013: 50%), namely $5.25 million (2013: $8 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 $10.5 million (2013: $16 million).

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. In the current year we set performance materiality for UK at $5.25 million and Malaysia at $1.0 million.

We collated errors in excess of $0.5 million and agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.75 million (2013: $1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both quantitative measures of materiality discussed above, and in light of other relevant qualitative considerations.

5. 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 focussed on addressing the risks that are relevant to the business. This approach focussed 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 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 group-wide controls and recent internal audit findings.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC CONTINUED

(REGISTERED NUMBER: 07140891)

Our Group audit scope focussed on two key locations, of which one was subject to a full scope audit, whilst the remaining location was subject to specific audit testing based on our judgement of risk and materiality. The full scope location is 94% of the Group's total assets and 98% of the Group's business performance and the specific scope location is 6% of the Group's total assets and 2% of the Group's business performance.

For the remaining locations, we performed other procedures to confirm there were no significant risks of material misstatement in the Group's financial statements.

For all in-scope locations, in addition to the site visits, the Group audit team reviewed key working papers and participated in the component team's planning and execution of the responses to the risks.

6. Our 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

7. Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

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
- is 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 and Accounts, taken as a whole, 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:

- 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 42 and 43, 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.

8. The scope of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are require 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.

9. The scope 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 applied consistently 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 2014 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 our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

10. The respective responsibilities of Directors and Auditor

As explained more fully in the Statement of directors' responsibilities set out on page 78, the Directors are responsible for the preparation of the 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 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.

Gary Donald (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 March 2015

Notes:

1. The maintenance and integrity of the EnQuest PLC website is the responsibility of the Directors: the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Business performance US$'000	2014 Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4) US$'000	2014 Reported in year US$'000	2013 Business performance US$'000	2013 Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4) US$'000	2013 Reported in year US$'000
Revenue and other operating income	5(a)	**1,009,884**	**18,611**	**1,028,495**	961,199	(5,954)	955,245
Cost of sales	5(b)	**(654,061)**	**(57,797)**	**(711,858)**	(526,321)	(822)	(527,143)
Gross profit/(loss)		**355,823**	**(39,186)**	**316,637**	434,878	(6,776)	428,102
Exploration and evaluation expenses	5(c)	**(4,033)**	**(151,982)**	**(156,015)**	(8,641)	–	(8,641)
Impairment of investments	4	**–**	**(1,316)**	**(1,316)**	–	(312)	(312)
Impairment of oil and gas assets	4	**–**	**(678,801)**	**(678,801)**	–	–	–
Negative goodwill	13	**–**	**28,630**	**28,630**	–	–	–
Gain on disposal of intangible oil and gas assets	12	**–**	**2,019**	**2,019**	–	–	–
General and administration expenses	5(d)	**(16,464)**	**–**	**(16,464)**	(25,024)	–	(25,024)
Other income	5(e)	**27,176**	**–**	**27,176**	–	–	–
Other expenses	5(f)	**–**	**–**	**–**	(26,390)	–	(26,390)
Profit/(loss) from operations before tax and finance income/(costs)		**362,502**	**(840,636)**	**(478,134)**	374,823	(7,088)	367,735
Finance costs	6	**(121,066)**	**18,698**	**(102,368)**	(38,830)	–	(38,830)
Finance income	6	**1,814**	**–**	**1,814**	2,030	–	2,030
Profit/(loss) before tax		**243,250**	**(821,938)**	**(578,688)**	338,023	(7,088)	330,935
Income tax	7	**(105,841)**	**508,120**	**402,279**	(146,607)	5,276	(141,331)
Profit/(loss) for the year attributable to owners of the parent		**137,409**	**(313,818)**	**(176,409)**	191,416	(1,812)	189,604
Other comprehensive income for the year, after tax:							
Cash flow hedges: may be reclassified subsequently to profit or loss	21			**156,281**			121
Deferred tax on gain on cash flow hedges	7			**(96,894)**			(75)
Available-for-sale financial assets	14			**(398)**			398
Total comprehensive income for the year, attributable to owners of the parent				**(117,420)**			190,048
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.178**		**(0.228)**	0.246		0.244
Diluted		**0.178**		**(0.228)**	0.240		0.238

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

GROUP BALANCE SHEET

AT 31 DECEMBER 2014

	Notes	2014 US$'000	2013 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**3,116,405**	2,871,229
Goodwill	11	**189,317**	107,760
Intangible oil and gas assets	12	**65,710**	130,874
Investments	14	**689**	2,403
Deferred tax assets	7	**40,401**	14,731
Other financial assets	21	**18,809**	21,928
		3,431,331	3,148,925
Current assets			
Inventories	15	**89,397**	46,814
Trade and other receivables	16	**286,227**	267,180
Current tax receivable		**11,199**	6,275
Cash and cash equivalents	17	**176,791**	72,809
Other financial assets	21	**100,932**	8,455
		664,546	401,533
TOTAL ASSETS		**4,095,877**	3,550,458
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**113,433**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**59,387**	–
Available-for-sale reserve		**–**	398
Share-based payment reserve		**(17,696)**	(10,280)
Retained earnings		**541,894**	718,303
TOTAL EQUITY		**1,359,873**	1,484,709
Non-current liabilities			
Borrowings	20	**227,035**	199,396
Bonds	20	**882,561**	254,500
Obligations under finance leases	25	**36**	72
Provisions	23	**556,368**	308,426
Other financial liabilities	21	**23,694**	839
Deferred tax liabilities	7	**503,037**	760,993
		2,192,731	1,524,226
Current liabilities			
Bonds	20	**12,689**	4,291
Trade and other payables	24	**429,070**	363,310
Obligations under finance leases	25	**36**	35
Other financial liabilities	21	**101,478**	169,891
Current tax payable		**–**	3,996
		543,273	541,523
TOTAL LIABILITIES		**2,736,004**	2,065,749
TOTAL EQUITY AND LIABILITIES		**4,095,877**	3,550,458

The attached notes 1 to 29 form part of these Group financial statements.
The financial statements on pages 83 to 118 were approved by the Board of Directors on 18 March 2015 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2014

	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 2013	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**
Loss for the year	–	–	–	–	–	(176,409)	(176,409)
Other comprehensive income	–	–	59,387	(398)	–	–	58,989
Total comprehensive income for the year	–	–	59,387	(398)	–	(176,409)	(117,420)
Share-based payment charge	–	–	–	–	8,468	–	8,468
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(15,884)	–	(15,884)
At 31 December 2014	**113,433**	**662,855**	**59,387**	**–**	**(17,696)**	**541,894**	**1,359,873**

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

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 US$'000	2013 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(578,688)**	330,935
Depreciation	5(d)	**7,438**	6,914
Depletion	5(b)	**244,531**	225,654
Exploration costs impaired and written off	5(c)	**152,550**	1,966
Impairment of oil and gas assets	4	**678,801**	–
Gain on disposal of intangible oil and gas assets	4	**(2,019)**	–
Impairment on available-for-sale investments	4	**1,316**	312
Negative goodwill	4	**(28,630)**	–
Share-based payment charge	5(g)	**8,468**	8,193
Unwinding of discount on decommissioning provisions	6	**12,093**	12,588
Unrealised losses on financial instruments	5(a)(b)	**(1,447)**	(5,938)
Unrealised exchange (gains)/losses	5(e)(f)	**(27,176)**	26,390
Net finance costs	6	**88,461**	22,479
Operating profit before working capital changes		**555,698**	629,493
Decrease/(increase) in trade and other receivables		**96,243**	(30,828)
Increase in inventories		**(41,748)**	(30,849)
Increase/(decrease) in trade and other payables		**26,877**	(5,126)
Cash generated from operations		**637,070**	562,690
Cash received on sale of financial instruments		**100,126**	–
Decommissioning spend		**(7,177)**	–
Income taxes paid		**(12,503)**	(11,278)
Net cash flows from operating activities		**717,516**	551,412
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(990,563)**	(950,326)
Purchase of intangible oil and gas assets		**(69,749)**	(36,593)
Proceeds from disposal of intangible oil and gas assets		**2,162**	–
Acquisitions		**(58,233)**	–
Prepayment of finance lease		**(100,000)**	–
Proceeds from farm-out		**–**	2,648
Interest received		**936**	583
Net cash flows used in investing activities		**(1,215,447)**	(983,688)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**42,034**	182,731
Proceeds from bond issue		**650,000**	246,345
Shares purchased by Employee Benefit Trust		**(15,884)**	(7,401)
Repayment of obligations under finance leases		**(35)**	(35)
Interest paid		**(43,582)**	(9,025)
Other finance costs paid		**(23,049)**	(35,712)
Net cash flows from financing activities		**609,484**	376,903
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**111,553**	(55,373)
Net foreign exchange on cash and cash equivalents		**(7,571)**	3,660
Cash and cash equivalents at 1 January		**72,809**	124,522
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**176,791**	72,809

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 2014

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, Malaysia and the Norwegian North Sea.

The Group's financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 18 March 2015.

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 2014 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 2014.

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 pages 42 and 43 in the Financial Review 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.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviewed the procedures used to measure the amounts to be recognised at the acquisition date, if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred then the gain is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss, or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 2014. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

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 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 have been revised and contained within IFRS 10.

IFRS 11 Joint Arrangements

IFRS 11 establishes a clear principle that is applicable to the accounting for all joint arrangements. 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 has been 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.

Annual Improvements 2010–2012 Cycle

In the 2010–2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. It clarifies in the Basis for Conclusions that short term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

Includes disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

2. Summary of significant accounting policies (continued)

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

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption 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 measurement of financial liabilities.

Annual Improvements 2010–2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied retrospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counter-party, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

This amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g. sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the Chief Operating Decision Maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that an asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

This amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements 2011–2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements for Acquisition of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured in the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties share joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

2. Summary of significant accounting policies (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

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 fair value less costs to sell of the cash-generating units (CGU) to which goodwill has been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate. In calculating the value of the CGU, the Group uses forward curve prices for the first three years and thereafter at US$85 per barrel inflated at 2% per annum from 2015. Cash flows are then discounted using a rate derived from the Group's post-tax weighted average cost of capital.

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 an oil price assumption representing management's view of the long term oil price.

Decommissioning provision

Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements 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% (2013: 2%) and an annual discount rate of 3% (2013: 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.

Taxation

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

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

Foreign currencies

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

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

2. Summary of significant accounting policies (continued)

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;
- 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
Exchanges or part exchanges of intangible oil and gas assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the assets received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. A gain or loss is recognised on the difference between the carrying amount of the asset given up and the fair value of the asset received in profit or loss.

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.

2. Summary of significant accounting policies (continued)

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.

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 transaction 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 timeframe established by regulation or convention in the marketplace (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 immediately in the income statement within revenue for commodity derivatives or cost of sales for foreign exchange derivatives.

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.

2. Summary of significant accounting policies (continued)

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.

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. Where put options are used as hedging instruments, only the intrinsic value of the option is designated as the hedge, with the time value recorded in finance costs.

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.

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.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

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

Financial liabilities

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

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

Interest-bearing loans and borrowings

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

Bonds

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.

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.

Gains or losses arising on remeasurement of commodity derivatives designated at FVTPL are recognised immediately within revenue.

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.

2. Summary of significant accounting policies (continued)

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 bear 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 uplifts are 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.

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 supplementary 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 supplementary 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, extraction and production of hydrocarbons. Operations are located and managed into the following two business units, North Sea and Malaysia, therefore all information is being presented for geographical segments. The information reported to the Chief Operating Decision Maker does not include an analysis of assets and liabilities and accordingly IFRS 8 does not require this information to be presented.

Year ended 31 December 2014	North Sea US$'000	Malaysia US$'000	All other segments US$'000	Total segments US$'000	Adjustments and eliminations US$'000	Consolidated US$'000
Revenue:						
External customers	956,549	53,335	–	1,009,884	18,611	1,028,495
Total Group revenue	**956,549**	**53,335**	**–**	**1,009,884**	**18,611**	**1,028,495**
Income/(expenses)						
Depreciation and depletion	234,383	17,586	–	251,969	–	251,969
Impairment of investments	(1,316)	–	–	(1,316)	–	(1,316)
Exploration write offs and impairments	(127,006)	(21,932)	(3,613)	(152,551)	–	(152,551)
Gain on disposal of assets	2,019	–	–	2,019	–	2,019
Impairment of oil and gas assets	(678,801)	–	–	(678,801)	–	(678,801)
Negative goodwill	–	28,630	–	28,630	–	28,630
Segment profit/(loss)	**(581,609)**	**22,121**	**(6,193)**	**(565,681)**	**(13,007)**	**(578,688)**
Other disclosures:						
Capital expenditure	985,636	192,319	2,763	1,180,718	–	1,180,718

All other adjustments are part of the detailed reconciliations presented further below.

Year ended 31 December 2013	North Sea US$'000	Malaysia US$'000	All other segments US$'000	Total segments US$'000	Adjustments and eliminations US$'000	Consolidated US$'000
Revenue:						
External customers	961,199	–	–	961,199	(5,954)	955,245
Total Group revenue	**961,199**	**–**	**–**	**961,199**	**(5,954)**	**955,245**
Income/(expenses)						
Depreciation and depletion	232,568	–	–	232,568	–	232,568
Impairment of investments	(312)	–	–	(312)	–	(312)
Exploration write offs and impairments	(1,966)	–	–	(1,966)	–	(1,966)
Segment profit/(loss)	**365,907**	**(1,435)**	**1,530**	**366,002**	**(35,067)**	**330,935**
Other disclosures:						
Capital expenditure	1,358,183	6,249	5,526	1,369,958	–	1,369,958

Adjustments and eliminations

Finance income and costs and gains and losses on derivatives are not allocated to individual segments as the underlying instruments are managed on a Group basis.

Capital expenditure consists of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Inter-segment revenues are eliminated on consolidation.

Reconciliation of profit:

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Segment (loss)/profit	**(565,681)**	366,002
Finance income	**1,814**	2,030
Finance expense	**(79,713)**	(38,830)
Gains and losses on derivatives	**64,892**	1,733
(Loss)/profit before tax	**(578,688)**	330,935

Revenue from two customers (2013: one customer) each exceed 10% of the Group's consolidated revenue and amounted respectively to US$472,729,000 and US$347,900,000 arising from sales of crude oil above (2013: US$901,936,000) in the North Sea operating segment.

All non-current assets of the Group are located in the United Kingdom except for US$170,948,000 (2013: US$13,414,000) located in Malaysia and US$4,823,000 (2013: US$5,526,000) located in Egypt.

4. Exceptional items and depletion of fair value uplift

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Recognised in arriving at profit/(loss) from operations before tax:		
Unrealised mark-to-market gains of derivatives	**(19,225)**	(1,733)
Impairment of available-for-sale investments (note 14)	**1,316**	312
Impairment of oil and gas assets (note 10)	**678,801**	–
Impairment of exploration and evaluation assets (note 12)	**151,982**	–
Gain on disposal of intangible oil and gas assets (note 12)	**(2,019)**	–
Depletion of fair value uplift	**6,870**	8,509
SVT tariff operator reconciliation	**32,843**	–
Negative goodwill	**(28,630)**	–
	821,938	7,088
Tax	**(508,120)**	(5,276)
	(313,818)	1,812

Unrealised mark-to-market gains and losses of derivatives
These include unrealised mark-to-market gains and losses on commodity and foreign exchange instruments which are included within revenue (note 5(a)), costs of sales (note 5(b)) and finance expenses (note (6)). The separate presentation of these items best reflects the underlying performance of the business as it distinguishes between the temporary timing differences associated with re-measurement under IAS 39 rules and actual realised gains and losses.

Impairment of available-for-sale investments
As consideration for the disposal of the held for sale Petisovci asset in 2011, the Group received an investment in Ascent Resources plc. The accounting valuation of this shareholding at 31 December 2014 resulted in a non-cash impairment of US$1,714,000, of which US$1,316,000 was recognised in the income statement (2013: US$312,000). As there was a reversal of an impairment in 2013, which was taken to the available-for-sale reserve then, a portion of the current year impairment must be taken to the reserve, as the income statement impact cannot exceed the cumulative decline in the value of the investment.

Impairment of oil and gas assets
As part of the annual impairment review process, impairment triggers were highlighted which has led to a US$678,801,000 impairment of Alma/Galia and Don fields (refer to note 10).

Impairment of exploration and evaluation assets
Exploration and evaluation assets were reviewed and this has led to an impairment primarily of Kildrummy, Cairngorm, Crawford Porter and some GKA acreage in the UK, SB307 and SB308 blocks in Malaysia and the North West October block in Egypt (refer to note 12).

Gain on disposal of intangible oil and gas assets
In November 2014 the Group disposed of its Dutch asset P8a for US$2,162,000 resulting in a gain of US$2,019,000.

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$6,870,000 (2013: US$8,509,000) is included within cost of sales in the statement of comprehensive income.

Operator SVT tariff reconciliation
SVT terminal operating costs are allocated to East of Shetland users based on each user's delivered production throughput, as a percentage of the total terminal throughput. Costs are further allocated, based on a user's share of two associated services – Stabilised Crude Oil processing (SCO) & Liquified Petroleum Gas processing (LPG). SVT costs incurred during each month are provisionally allocated and charged to users based on a user's estimated share of costs (based on estimated throughput volumes per service). At year end, a process occurs whereby the terminal operator reconciles each user's estimated share of costs against its actual share (based on the actual total spend and actual terminal throughput for that given year).

In 2013, as a direct result of EnQuest's strong production performance versus other SVT users' lower than expected throughput in 2013, EnQuest's actual share of SCO/LPG throughput at year end was greater than estimated. This factor combined with a higher base level cost at SVT contributed to the exceptional value arising from the 2013 reconciliation. In addition, EnQuest also incurred a small excess capacity charge due to the use of terminal capacity in excess of its ownership share entitlement. The charge recognised in the year ended 31 December 2014 in relation to the 2013 reconciliation process was $30,369,000.

The Terminal Operator (BP) has undertaken a number of technical studies to map out the various operational and investment cases required to facilitate the terminal life to 2025, and beyond. These technical studies are now complete and will be presented to the terminal owners at the end of Q1/2015.

The next steps will be for the Terminal Owners to make a number of key decisions relating to what investments are necessary to facilitate a terminal life to 2025 and/or 2040.

Negative goodwill
During the year ended 31 December 2014, the Group acquired the PM8/Seligi assets in Malaysia. The assets and liabilities on acquisition have been fair valued and as the fair value is greater than the deemed consideration then a gain of US$28,630,000 has been recognised (refer to note 13).

Tax
The tax impact on the exceptional items is calculated based on the tax rate applicable to each exceptional item.

5. Revenue and expenses

(a) Revenue and other operating income

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Revenue from crude oil sales[(i)]	**1,002,210**	953,752
Unrealised gains and losses on commodity derivative contracts[(i)]	**18,611**	(5,954)
Tariff revenue	**7,564**	7,445
Other operating revenue	**110**	2
	1,028,495	955,245

(i) Included within revenue and other operating income are realised gains of US$31,749,000 (2013: nil) and unrealised gains of US$18,611,000 on the Group's commodity derivatives contracts (2013: losses of US$5,954,000) which are either ineffective for hedge accounting purposes or held for trading purposes.

(b) Cost of sales

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Cost of operations[(i)]	**296,211**	234,501
Tariff and transportation expenses	**140,339**	73,452
Unrealised gains and losses on foreign exchange derivative contracts[(i)]	**18,085**	(7,687)
Change in lifting position	**8,157**	2,649
Crude oil inventory movement (note 15)	**4,535**	(1,426)
Depletion of oil and gas assets (note 10)	**244,531**	225,654
	711,858	527,143

(i) Included within cost of operations are realised gains of US$55,273,000 (2013: US$7,339,000) and unrealised losses of US$18,085,000 (2013: gains of US$7,687,000) on foreign exchange derivative contracts ineffective for hedge accounting.

(c) Exploration and evaluation expenses

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Unsuccessful exploration expenditure written off (note 12)	**568**	704
Impairment charge (note 12)	**151,982**	1,262
Pre-licence costs expensed	**3,465**	6,675
	156,015	8,641

(d) General and administration expenses

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Staff costs (note 5(g))	**107,476**	108,226
Depreciation (note 10)	**7,438**	6,914
Other general and administration costs	**26,624**	21,450
Recharge of costs to operations and joint venture partners	**(125,074)**	(111,566)
	16,464	25,024

(e) Other income

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Net foreign exchange gains	**27,176**	–

5. Revenue and expenses (continued)

(f) Other expenses

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Net foreign exchange losses	–	26,390

(g) Staff costs

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Wages and salaries	**46,203**	44,790
Social security costs	**3,540**	5,128
Defined contribution pension costs	**3,366**	3,267
Expense of share-based payments (note 19)	**8,468**	8,193
Other staff costs	**3,622**	3,645
Total employee costs	**65,199**	65,023
Contractor costs	**42,277**	43,203
	107,476	108,226

The average number of persons employed by the Group during the year was 356 (2013: 245).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report on pages 59 to 72.

(h) Auditor's remuneration

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

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**326**	336
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Group's subsidiaries	**246**	272
Audit related assurance services (interim review)	**69**	73
Tax advisory services(i)	**159**	318
Other assurance services	**137**	43
	611	706
	937	1,042

(i) No costs were capitalised in the current year.

6. Finance costs/income

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Finance costs:		
Loan interest payable	**5,915**	2,954
Bond interest payable	**46,200**	10,360
Unwinding of discount on decommissioning provisions (note 23)	**12,093**	12,588
Unwinding of discount on financial liability (note 21)	**132**	–
Fair value loss on financial instruments at fair value through profit or loss (note 21)	**22,656**	–
Finance charges payable under finance leases	**2**	2
Amortisation of finance fees	**6,771**	7,700
Other financial expenses	**11,768**	6,467
	105,537	40,071
Less: amounts included in the cost of qualifying assets	**(3,169)**	(1,241)
	102,368	38,830
Finance income:		
Bank interest receivable	**304**	429
Unwinding of discount on financial asset (note 21)	**877**	1,447
Other financial income	**633**	154
	1,814	2,030

Fair value gains and losses on financial instruments at fair value through profit or loss relate to the movement in the time value portion of the fair value of commodity put option contracts where the intrinsic value has been designated as an effective hedge of production.

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2014 US$'000	Year ended 31 December 2013 US$'000
Group statement of comprehensive income		
Current income tax		
Current income tax charge	**4,684**	14,462
Adjustments in respect of current income tax of previous years	**(6,540)**	(2,075)
Current overseas income tax		
Current income tax charge	**5,355**	(3,379)
Adjustments in respect of current income tax of previous years	**2,640**	703
Total current income tax	**6,139**	9,711
Deferred income tax		
Relating to origination and reversal of temporary differences	**(410,422)**	133,314
Adjustments in respect of changes in tax rates	**–**	409
Adjustments in respect of deferred income tax of previous years	**2,606**	(2,112)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**1,685**	9
Adjustments in respect of deferred income tax of previous years	**(2,287)**	–
Total deferred income tax	**(408,418)**	131,620
Income tax expense reported in statement of comprehensive income	**(402,279)**	141,331

(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 2014 US$'000	Year ended 31 December 2013 US$'000
(Loss)/profit before tax	**(578,688)**	330,935
Statutory rate of corporation tax in the UK of 62% (2013: 62%)	**(358,787)**	205,179
Supplementary corporation tax non-deductible expenditure	**(11,612)**	15,250
Non-deductible expenditure	**(12,805)**	508
Deductible lease expenditure	**–**	(38,097)
Petroleum revenue tax (net of income tax benefit)	**20,190**	21,948
North Sea tax reliefs	**(93,726)**	(55,034)
Tax in respect of non-ring fence trade	**44,160**	(5,184)
Deferred tax rate decrease	**–**	409
North Sea oil and gas decommissioning rate restriction	**5,323**	2,824
Adjustments in respect of prior years	**(3,581)**	(3,482)
Overseas tax rate differences	**1,162**	(2,171)
Share-based payments	**5,336**	(225)
Other differences	**2,061**	(594)
At the effective income tax rate of 70% (2013: 43%)	**(402,279)**	141,331

7. Income tax (continued)

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group profit and loss account	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Deferred tax liability				
Accelerated capital allowances	**1,589,226**	1,456,498	**35,246**	387,107
Deferred PRT	**287,874**	151,825	**43,116**	47,910
	1,877,100	1,608,323		
Deferred tax asset				
Losses	**(1,078,095)**	(647,228)	**(430,867)**	(287,822)
Decommissioning liability	**(203,496)**	(114,113)	**(30,986)**	16,057
Other temporary differences	**(132,873)**	(100,720)	**(24,927)**	(31,632)
	(1,414,464)	(862,061)		
Deferred tax expense			**(408,418)**	131,620
Deferred tax liabilities, net	**462,636**	746,262		
Reflected in balance sheet as follows:				
Deferred tax assets	**(40,401)**	(14,731)		
Deferred tax liabilities	**503,037**	760,993		
Deferred tax liabilities, net	**462,636**	746,262		

Reconciliation of deferred tax liabilities, net

	2014 US$'000	2013 US$'000
At 1 January	**(746,262)**	(609,087)
Tax expense during the period recognised in profit or loss	**408,418**	(131,620)
Tax expense during the period recognised in other comprehensive income	**(96,894)**	(75)
Deferred taxes acquired	**(27,898)**	(5,480)
At 31 December	**(462,636)**	(746,262)

(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$16,635,000 (2013: US$2,481,000) 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$12,735,000 (2013: CAD$14,880,000) and in Holland of nil (2013: €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 seven and 20 years, none of which expire in 2015 and which arose following the change in control of the UK Stratic Group in 2010. Tax losses in Holland can be carried forward for a period of up to nine years.

The Group has pre-trading expenditure incurred in Malaysia on licences SB307 and SB308 of approximately US$29,700,000 for which no deferred tax asset has been recognised at the balance sheet date. The Group also has unrecognised pre-trading expenditure in Egypt at the end of 2014 of US$3,300,000.

No deferred tax has been provided on unremitted earnings of overseas subsidiaries. Finance Act 2009 exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

(e) Change in legislation

Finance Act 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 in 2013 was an increase in the tax charge of US$409,000.

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.

In 2014, potentially issuable ordinary shares are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

Basic and diluted earnings per share are calculated as follows:

	(Loss)/profit after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2014 US$'000	2013 US$'000	**2014 Million**	2013 Million	**2014 US$**	2013 US$
Basic	**(176,409)**	189,604	**774.1**	778.2	**(0.228)**	0.244
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**–**	18.1	**–**	(0.006)
Diluted	**(176,409)**	189,604	**774.1**	796.3	**(0.228)**	0.238
Adjusted (excluding exceptional items)	**137,409**	191,416	**774.1**	778.2	**0.178**	0.246
Diluted (excluding exceptional items)	**137,409**	191,416	**774.1**	796.3	**0.178**	0.240

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2014 (2013: nil). At 31 December 2014 there are no proposed dividends (2013: nil).

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 2013	–	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
Additions	42,665	839,514	5,429	887,608
Acquired	–	206,215	–	206,215
Change in decommissioning provision	–	82,123	–	82,123
At 31 December 2014	**59,937**	**5,269,864**	**33,269**	**5,363,070**
Depletion and depreciation:				
At 1 January 2013	–	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
Charge for the year	110	244,531	7,328	251,969
Impairment charge for the year	–	678,801	–	678,801
At 31 December 2014	**110**	**2,224,870**	**21,685**	**2,246,665**
Net carrying amount:				
At 31 December 2014	**59,827**	**3,044,994**	**11,584**	**3,116,405**
At 31 December 2013	17,272	2,840,474	13,483	2,871,229
At 1 January 2013	–	1,802,685	13,906	1,816,591

In March 2014, the Group completed the acquisition of Centrica North Sea Oil Limited (Centrica's) share of the UKCS Greater Kittiwake Area (GKA) assets as well as its 100% interest in the Kittiwake to Forties oil export pipeline. In June 2014, EnQuest completed the acquisition of ExxonMobil Exploration and Production Malaysia Inc's (ExxonMobil's) interest in the Seligi oil field and the PM8 PSC, located offshore Malaysia. The costs relating to these acquisitions are included within 'Acquired' costs.

Included within 'Acquired' costs in the year ended 31 December 2013, is the acquisition of a non-operated interest in the producing oil field Alba, in the UK Continental Shelf, which has been accounted for as an asset acquisition.

10. Property, plant and equipment (continued)

In the prior year, included within the 'cost carry' costs is the portion of the consideration payable to Nautical Petroleum plc and First Oil plc for 40% of the Kraken field which was through 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 was included and the remaining US$164,176,000 balance of the 'firm' carry and US$80,000,000 of the 'contingent' carry were 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 ended 31 December 2013, KUFPEC carried the Company for US$98,300,000 under this carry arrangement.

During the year ended 31 December 2014, there have been impairments in the Alma/Galia and Don fields of US$678,801,000 (US$256,896,000 on a post tax basis). The impairment is principally due to the significant fall in the oil price in the latter part of 2014. Other factors contributing to the impairment include delays in first oil and cost increases in the case of Alma/Galia, together with the impact of cutting the capital programme, in response to the changing economic conditions. The only asset with a material impairment is Alma/Galia, where it has been written down by US$675,600,000 to the estimate of its recoverable value of US$832,900,000. This assessment of recoverable value is most sensitive to assumptions in respect of price and production (refer to note 11).

There was no impairment in the year ended 31 December 2013.

The net book value at 31 December 2014 includes US$1,504,172,000 (2013: US$1,581,847,000) of pre-development assets and development assets under construction which are not being depreciated. Also US$49,132,000 (2013: US$7,130,000) of costs relating to the construction of the Group's new Aberdeen office has not been depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2014 was US$3,169,000 (2013: US$1,241,000) and relate to the Alma/Galia and Kraken development projects as well as the construction of the new office building. The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 1.54% (2013: 0.95%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2014 was US$141,000 (2013: US$141,000) of oil and gas assets. The net book value of US$10,695,000 (2013: US$10,695,000) for land is held under a long lease.

11. Goodwill

A summary of goodwill is presented below:

	2014 US$'000	2013 US$'000
Cost		
At 1 January	**107,760**	107,760
Additions (note 13)	**81,557**	–
At 31 December	**189,317**	107,760

The balance at 31 December 2013 represents goodwill acquired on the acquisition of Stratic and PEDL in 2010. The additions during the year represent the acquisition of the Greater Kittiwake Area asset.

Goodwill acquired through business combinations has been allocated to a single cash-generating unit (CGU), the UKCS, and therefore the lowest level that goodwill is reviewed.

Impairment testing of goodwill

In accordance with IAS 36 Impairment of Assets, goodwill has been reviewed for impairment at the year end. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount. In the prior year the Group used the detailed calculation performed in 2012 as the basis for the tests as allowed under IAS 36.

The recoverable amount of the CGU has been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis discounted at the Group's post-tax weighted average cost of capital (WACC) of 8.8%. Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in calculations

The key assumptions required for the calculation of the CGU are:

- oil prices;
- production volumes;
- discount rates;
- opex, capex and decommissioning costs; and
- taxation.

Oil prices are based on forward price curves for the first three years and thereafter at US$85 per barrel inflated at 2% per annum from 2015.

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

The discount rate reflects management's estimate of the Group's WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The post-tax discount rate applied to the Group's post-tax cash flow projections was 8.8%.

Sensitivity to changes in assumptions
The Group's value is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount (NPV) of the CGU would be equal to the carrying amount of goodwill if either the oil price or production volumes (on a CGU weighted average basis) were to fall by 14% from the prices outlined above. Goodwill would need to be fully impaired if the oil price or production volumes (on a CGU weighted average basis) were to fall by 17% from the prices outlined above. The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant. In reality, management would be highly likely to take steps to mitigate the value impact of further falls in the oil price by cutting supply chain costs.

12. Intangible oil and gas assets

	US$'000
Cost	
At 1 January 2013	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
Additions	67,095
Acquisition of interests in licences	19,800
Write-off of relinquished licences previously impaired	(8,423)
Disposals	(143)
Unsuccessful exploration expenditure written off	(568)
Change in decommissioning provision	634
At 31 December 2014	**307,164**
Provision for impairment	
At 1 January 2013	(103,186)
Impairment charge for the year	(1,262)
Write-off of relinquished licences previously impaired	6,553
At 31 December 2013	(97,895)
Impairment charge for the year	(151,982)
Write-off of relinquished licences previously impaired	8,423
At 31 December 2014	**(241,454)**
Net carrying amount:	
At 31 December 2014	**65,710**
At 31 December 2013	130,874
At 1 January 2013	97,506

Included within the acquisition of the GKA assets are exploration licences and an allocation of the fair value is included in acquisition of interests above for the year ended 31 December 2014.

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). Also included is the Group's 50% interest in the North West October (NWO) block in Egypt, acquired from Arabian Oil Company Limited (AOC).

During the year the Group disposed of its Dutch asset P8a for US$2,162,000 resulting in a gain of US$2,019,000.

12. Intangible oil and gas assets (continued)

In 2013, an agreement was completed whereby KUFPEC UK Limited (KUFPEC) and Spike Exploration UK Limited (Spike) took 25% and 30% working interests respectively in the Cairngorm discovery (blocks 16/2b and 16/3d). KUFPEC and Spike 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 2014, US$8,423,000 of costs relating to relinquished licences previously impaired were written off (2013: US$6,553,000).

The impairment charge for the year ended 31 December 2014 includes costs relating to Crawford Porter, Kildrummy, Cairngorm and some GKA acreage in the UK. In current market conditions some of those interests do not merit sufficient funds to progress them to economic development. In addition, costs relating to the SB307 and SB308 blocks in Malaysia (due to the unsuccessful exploration well) and costs incurred since acquisition on the NWO block in Egypt were impaired. The costs relating to the South West Heather licence which is in the process of being relinquished have also been impaired. The year ended 31 December 2013 included the impairment charge for the Peik licence which was relinquished in 2014.

13. Business combinations

Acquisition of GKA assets

On 1 March 2014, the Group completed the acquisition of Centrica North Sea Oil Limited (Centrica) 50% share of the UKCS GKA assets as well as Centrica's 100% interest in the Kittiwake to Forties oil export pipeline. Base consideration was US$39,900,000 which was subject to certain working capital and other interim period adjustments from the economic date of 1 January 2013, resulting in a cash consideration of US$30,322,000. The Group acquired the GKA assets partly due to its proximity to the Scolty/Crathes field and the potential for a tie-back. In addition, the Group saw significant potential to improve production through infill drilling.

The fair value was provisional at 30 June 2014 and has been reviewed in accordance with the provisions of IFRS 3 Business Combinations (Revised). The initial fair values of assets and liabilities recognised on acquisition have been updated to reflect the finalisation of working capital adjustments and decommissioning provisions.

The changes to the fair value of the identifiable assets and liabilities of GKA are as follows:

	Revised fair values US$'000	Initial fair value recognised on acquisition US$'000	(Decrease)/ increase to the fair value recognised on acquisition US$'000
Assets			
Property, plant and equipment	55,360	55,360	–
Intangible assets	19,800	19,800	–
Inventory	3,258	3,258	–
Receivables	20,310	–	20,310
Liabilities			
Accruals	(40,669)	–	(40,669)
Decommissioning provision	(78,318)	(73,234)	(5,084)
Deferred tax liability	(4,276)	(6,976)	2,700
Total identifiable net liabilities at fair value	**(24,535)**	**(1,792)**	**(22,743)**
Goodwill arising on acquisition (Note 11)	**81,557**	**58,814**	**22,743**
Purchase consideration transferred	**57,022**	**57,022**	**–**

Purchase consideration:	
Cash paid and payable	**30,322**
Deferred and contingent consideration	**26,700**
	57,022

The goodwill of US$81,557,000 comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition, GKA has contributed US$61,647,000 to revenue and US$9,866,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been US$61,647,000 and the loss before tax from continuing operations for the Group would have been US$3,044,000.

The Group will pay deferred consideration of US$30,000,000 contingent on regulatory approval of a Field Development Plan (FDP) for the Scolty field and/or the Crathes field. The fair value of US$18,000,000 has been determined at the date of acquisition using the then best estimate of the likelihood of FDP approval.

In addition, contingent consideration up to a maximum of US$100,000,000 may be payable subject to future exploration success. The fair value of US$8,700,000 is based on a discounted cash flow method and the best current estimate of the chance of exploration success.

13. Business combinations (continued)

Acquisition of Seligi oil field and PM8 PSC

On 27 June 2014, the Group completed the acquisition of ExxonMobil Exploration and Production Malaysia Inc's 50% operated interest in the Seligi oil field and an 80% participating interest in the PM8 PSC, located offshore Malaysia. The PM8 PSC (extension) was agreed to include the Seligi oil field and with effect from 1 July 2014, EnQuest holds a 50% interest in PM8/Seligi. Base consideration was US$67,000,000 subject to interim period adjustments since the economic date of 1 January 2014, resulting in a cash consideration payable of US$24,744,000.

The Group acquired the assets to use its extensive experience in creating value from late stage maturing assets in the North Sea to enhance recovery from these Malaysian assets.

The fair value was provisional at 30 June 2014 and has been reviewed in accordance with the provisions of IFRS 3 Business Combinations (Revised). The initial fair values of assets and liabilities recognised on acquisition have been updated to reflect the finalisation of working capital adjustments and decommissioning provisions.

The changes to the fair value of the identifiable assets and liabilities of PM8/Seligi are as follows:

	Revised fair values US$'000	Initial fair value recognised on acquisition US$'000	(Decrease)/ increase to the fair value recognised on acquisition US$'000
Assets			
Property, plant and equipment	150,855	156,398	(5,543)
Current tax	2,759	–	2,759
Liabilities			
Over-lift position	(6,959)	(9,400)	2,441
Accrued expenses	(3,681)	–	(3,681)
Financial liability	(5,247)	(5,700)	453
Decommissioning provision	(55,251)	(101,265)	46,014
Deferred tax liability	(29,102)	(11,821)	(17,281)
Total identifiable net assets at fair value	**53,374**	**28,212**	**25,162**
Negative goodwill	**(28,630)**	**–**	**(28,630)**
Purchase consideration transferred	**24,744**	**28,212**	**(3,468)**

The acquired financial liability relates to an agreement by the Group to carry Petronas Carigali SDN BHD (Carigali) for its share of exploration or appraisal well commitments. The fair value of US$5,247,000 has been calculated using a discounted cash flow method.

From the date of acquisition, PM8 has contributed US$53,335,000 to revenue and US$21,844,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been US$155,319,000 and the profit before tax from continuing operations for the Group would have been US$91,449,000.

The negative goodwill has been recognised in the income statement in the year ended 31 December 2014. The transaction resulted in a gain as EnQuest has the capability to utilise its skills to enhance value of mature assets such as PM8. Therefore, we believe the fair value of the assets is greater than the consideration.

14. Investments

	US$'000
Cost	
At 1 January 2013, 31 December 2013 and 31 December 2014	**19,231**
Provision for impairment	
At 1 January 2013	(16,914)
Impairment charge for the year	(312)
Reversal of impairment loss	398
At 31 December 2013	(16,828)
Impairment charge for the year[1]	(1,714)
At 31 December 2014	**(18,542)**
Net carrying amount:	
At 31 December 2014	**689**
At 31 December 2013	2,403
At 1 January 2013	2,317

1. US$1,316,000 has been recognised in the income statement and US$398,000 reversing the available-for-sale reserve.

14. Investments (continued)

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$1,714,000 in the year to 31 December 2014.

In the prior year, the accounting valuation for the period ended 30 June 2013 resulted in a non-cash impairment of US$312,000 and by 31 December 2013 the share price had increased, resulting in a reversal of the impairment, which was recognised in the available-for-sale reserve.

15. Inventories

	2014 US$'000	2013 US$'000
Crude oil	**11,695**	16,273
Well supplies	**77,702**	30,541
	89,397	46,814

16. Trade and other receivables

	2014 US$'000	2013 US$'000
Trade receivables	**53,812**	93,252
Joint venture receivables	**61,000**	116,341
Under-lift position	**15,010**	17,248
VAT receivable	**20,818**	16,751
Other receivables	**18,716**	15,055
	169,356	258,647
Prepayments and accrued income	**116,871**	8,533
	286,227	267,180

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 2014 no impairment provision for trade receivables was necessary (2013: nil).

Joint venture receivables relate to billings to joint venture partners and were not impaired.

Under-lift is valued at net realisable value being the lower of cost and net realisable value.

As at 31 December 2014 and 31 December 2013 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 2014 is restricted cash of US$27,183,000 (2013: nil). US$22,324,000 of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

18. Share capital

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

	2014 US$'000	2013 US$'000
Authorised, issued and fully paid 802,660,757 (2013: 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 2014 or 2013.

At 31 December 2014 there were 29,691,691 shares held by the Employee Benefit Trust (2013: 25,510,520), 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 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 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
2014 awards	127p	91%
2013 awards	127p	96%
2012 awards	124p	94%

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

	2014 Number[1]	2013 Number[1]
Outstanding at 1 January	**1,484,001**	1,018,357
Granted during the year	**1,021,538**	848,922
Exercised during the year	**(741,856)**	(359,077)
Forfeited during the year	**(162,048)**	(24,201)
Outstanding at 31 December	**1,601,635**	1,484,001

1. Includes invested and matching shares.

There were no share awards exercisable at either 31 December 2014 or 2013.

The weighted average contractual life for the share awards outstanding as at 31 December 2014 was 0.9 years (2013: 1.0 years). The charge recognised in the 2014 statement of comprehensive income in relation to matching share awards amounted to US$2,095,000 (2013: US$1,058,000).

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 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
2014 awards	125p	100%
2013 awards	127p	84%
2012 awards	123p	70%
2011 awards	119p	91%

19. Share-based payment plans (continued)

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

	2014 Number	2013 Number
Outstanding at 1 January	**8,379,718**	8,158,207
Granted during the year	**288,862**	1,567,800
Exercised during the year	**(2,703,374)**	(1,055,827)
Forfeited during the year	**(637,866)**	(290,462)
Outstanding at 31 December	**5,327,340**	8,379,718
Exercisable at 31 December	**3,058,629**	2,191,424

The weighted average contractual life for the share awards outstanding as at 31 December 2014 was 1.3 years (2013: 1.0 years).

The charge recognised in the year ended 31 December 2014 amounted to US$1,637,000 (2013: US$3,007,000).

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted 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
2014 awards	127p	93%
2013 awards	127p	87%
2012 awards	124p	83%

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

	2014 Number	2013 Number
Outstanding at 1 January	**8,299,026**	4,602,639
Granted during the year	**4,905,547**	3,936,000
Exercised during the year	**(480,636)**	–
Forfeited during the year	**(1,780,533)**	(239,613)
Outstanding at 31 December	**10,943,404**	8,299,026
Exercisable at 31 December	**457,963**	–

The weighted average contractual life for the share awards outstanding as at 31 December 2014 was 1.6 years (2013: 1.5 years).

The charge recognised in the year ended 31 December 2014 amounted to US$4,711,000 (2013: US$4,066,000).

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
2014 awards	38.7p	71%
2013 awards	20p	55%
2012 awards	20p	46%

19. Share-based payment plans (continued)

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

	2014 Number	2013 Number
Outstanding at 1 January	**1,086,120**	697,380
Granted during the year	**1,017,570**	464,460
Exercised during the year	**(13,000)**	–
Forfeited during the year	**(774,935)**	(75,720)
Outstanding at 31 December	**1,315,755**	1,086,120

There were no share options exercisable at either 31 December 2014 or 2013.

The weighted average contractual life for the share options outstanding as at 31 December 2014 was 2.6 years (2013: 2.5 years).

The charge recognised in the 2014 statement of comprehensive income amounted to US$25,000 (2013: US$62,000).

The Group has recognised a total charge of US$8,468,000 (2013: US$8,193,000) 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 2014, the Group had a six year US$1,700,000,000 multi-currency revolving 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 LIBOR plus a margin of 2.50% to 3.75%, dependent on specified covenant ratios.

At 31 December 2014, US$217,649,000 was drawn down under the Group's facility agreement (2013: US$225,809,000) and LoC utilisation was US$149,395,000 (2013: US$181,543,000). Unamortised facility fees of US$24,168,000 have been netted off against the drawdowns in the balance sheet (2013: US$26,413,000).

Property loan facility

During the year the Group entered a £31,800,000 two year development facility with Abbey National Treasury Services PLC in relation to the construction of the Group's Aberdeen office building. The facility terminates on 28 March 2016.

Interest of LIBOR plus a margin of 1.5% is payable. At 31 December 2014, £21,934,000 (US$34,199,000) was drawn down under the development facility. Unamortised facility fees of US$645,000 have been netted off against the drawdowns 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.

Bonds

In April 2014, the Group issued a US$650,000,000 high yield bond which matures in 2022 and pays a coupon of 7% payable bi-annually in April and October. The bond is carried at its amortised cost of US$651,077,000 (2013: nil).

At 31 December 2014, the Group also had a 5.5% Sterling Retail Bond of £155,245,000. 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$169,010,000 (2013: US$263,498,000) but is carried at its amortised cost of US$244,173,000 (2013: US$258,791,000). The fair value of the Sterling Retail Bond has been determined by reference to the price available from the market on which the bond is traded.

21. Other financial assets and financial liabilities

	2014 US$'000	2013 US$'000
Financial instruments at fair value through other comprehensive income		
Current assets		
Cash flow hedges:		
Commodity contracts	**87,299**	–
Financial instruments at fair value through profit or loss		
Current assets		
Derivatives not designated as hedges:		
Commodity contracts	**7,930**	–
Forward foreign currency contracts	**2,409**	8,455
	10,339	8,455
Non-current assets		
Derivatives not designated as hedges:		
Forward foreign currency contracts	**–**	702
Current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**22,445**	5,084
Forward foreign currency contracts	**12,805**	631
	35,250	5,715
Non-current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**18,041**	839
Loans and receivables		
Current assets		
Other receivable	**3,294**	–
Non-current assets		
Other receivable	**18,809**	21,226
Other financial liabilities at amortised cost		
Current liabilities		
Other liability	**66,228**	164,176
Non-current liabilities		
Other liability	**5,653**	–
Total current assets	**100,932**	8,455
Total non-current assets	**18,809**	21,928
Total assets	**119,741**	30,383
Total current liabilities	**101,478**	169,891
Total non-current liabilities	**23,694**	839
Total liabilities	**125,172**	170,730

Commodity contracts
During the year ended 31 December 2014, the Group entered into various put option contracts in order to hedge the exposure to changes in future cash flows from the sale of oil production in 2015. Put options over approximately 8,000,000 barrels of oil in 2015 were purchased with an average strike price of US$87 per barrel. These options were subsequently closed in December 2014. A gain on the intrinsic value of the options (the portion designated into the hedging relationship) of US$119,055,000 was deferred in equity and will be recognised in revenue during 2015. The realised loss on the time value portion of US$38,815,000 was recognised in finance costs. Put options over a further 10,000,000 barrels maturing in 2015 were purchased, and remain open at year end. These options have an average strike price of US$65 per barrel, and were deemed effective for hedge accounting purposes. Intrinsic value gains of US$37,226,000 have been deferred in equity and will be recognised in revenue during 2015. The increase of US$16,200,000 in the time value portion above the premium paid for the options has been recognised in finance costs. The fair value of these open puts at 31 December 2014 was US$87,299,000.

The Group also sold call options during 2014. At 31 December 2014 call options over 17,744,000 notional barrels had been sold, of which 10,246,150 maturing in 2015 with an average strike price of US$93.94 per barrel, and 7,498,199 maturing in 2016 with an average strike price of US$99.36 per barrel. These call options are designated as 'At fair value through profit and loss' (FVTPL). These contracts had a net liability fair value of US$36,227,000 at 31 December 2014, representing a gain over the premium received of US$16,653,000. This gain has been recognised in revenue.

21. Other financial assets and financial liabilities (continued)

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 were designated as at FVTPL. These contracts matured during 2014 and had a nil fair value (2013: US$5,084,000 (loss)).

During the year, the Group also entered a series of commodity swaps. These contracts had a net fair value of US$3,670,000.

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 which were due to expire in 2014 and 2015. These contracts did not qualify for hedge accounting. Of those outstanding at 31 December 2014, the net fair value was US$10,396,000 liability (2013: US$7,688,000 asset).

Foreign exchange swap contracts

During 2014, the Group entered several foreign exchange swap contracts when Sterling was trading above $1.66:£1. The swap contracts were closed early in October 2014 realising a gain of US$46,756,000 which has been recognised in the income statement within cost of sales.

The income statement impact of all commodity and currency derivatives are as follows:

	Revenue		Cost of sales		Finance income/(expenses)	
Year ended 31 December 2014	**Realised US$'000**	**Unrealised US$'000**	**Realised US$'000**	**Unrealised US$'000**	**Realised US$'000**	**Unrealised US$'000**
Call options	**8,785**	**9,857**	**–**	**–**	**–**	**–**
Put options	**920**	**–**	**–**	**–**	**(41,353)**	**18,697**
Commodity swaps	**(11,522)**	**3,670**	**–**	**–**	**–**	**–**
Foreign exchange swap contracts	**–**	**–**	**46,756**	**–**	**–**	**–**
Other forward currency contracts	**–**	**–**	**8,517**	**(18,085)**	**–**	**–**
Prior year commodity contracts	**33,566**	**5,084**	**–**	**–**	**–**	**–**
	31,749	**18,611**	**55,273**	**(18,085)**	**(41,353)**	**18,697**

	Revenue		Cost of sales		Finance income/(expenses)	
Year ended 31 December 2013	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'000
Commodity contracts	–	(5,954)	–	–	–	–
Forward currency contracts	–	–	7,339	7,687	–	–
	–	(5,954)	7,339	7,687	–	–

Other receivable

As part of the 2012 farm-out to KUFPEC of 35% of the Alma/Galia development, KUFPEC 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 at 31 December 2012. The unwinding of discount of US$877,000 is included within finance income for the year ended 31 December 2014 (2013: US$1,447,000).

Other liability

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 2014 for the remainder of the 'firm' carry amounting to US$66,502,000 (2013: US$164,176,000). This is expected to expire early in 2015. The 'contingent' carry has been accounted for as a provision (note 23).

On Kraken FDP approval, commitments of US$11,200,000 due in respect of back-in payments associated with the sole risk drilling undertaken by the previous operator were due to be paid. These have now been added to the carry arrangement.

As part of the agreement to acquire the PM8 assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of US$5,379,000 has been disclosed as a financial liability (2013: nil). The unwinding of discount of US$132,000 is included within finance expense for the year ended 31 December 2014 (2013: nil).

	Other liability US$'000	Other receivable US$'000
At 1 January 2013	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
Additions during the year	5,247	–
Utilised during the year	(97,674)	–
Unwinding of discount	132	877
At 31 December 2014	**71,881**	**22,103**

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					
Commodity contracts	31 December 2014	95,229	–	95,229	–
Forward foreign currency contracts	31 December 2014	2,409	–	2,409	–
Other financial assets					
Available-for-sale financial investments					
Quoted equity shares	31 December 2014	689	689	–	–
Loans and receivables					
Other receivable	31 December 2014	22,103	–	–	22,103
Liabilities measured at fair value:					
Derivative financial liabilities					
Forward foreign currency contracts	31 December 2014	12,805	–	12,805	–
Commodity contracts	31 December 2014	40,486	–	40,486	–
Other liability					
Other liability	31 December 2014	71,881	–	–	71,881
Liabilities for which fair values are disclosed (notes 20 and 25)					
Interest bearing loans and borrowings	31 December 2014	227,035	–	227,035	–
Obligations under finance leases	31 December 2014	36	–	36	–
Sterling retail bond	31 December 2014	169,010	–	169,010	–
High yield bond	31 December 2014	651,077	–	651,077	–

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 and have been reviewed internally.

23. Provisions

	Decommissioning provision US$'000	Carry provision US$'000	Contingent Consideration US$'000	Total US$'000
At 1 January 2013	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
Additions during the year	7,622	–	–	7,622
Acquisition	133,569	–	26,700	160,269
Changes in estimates	75,135	–	–	75,135
Unwinding of discount	12,093	–	–	12,093
Utilisation	(7,177)	–	–	(7,177)
At 31 December 2014	**449,668**	**80,000**	**26,700**	**556,368**

23. Provisions (continued)

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 3.0% (2013: 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.

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 early 2015.

Contingent consideration

As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration has been agreed (refer to note 13).

24. Trade and other payables

	2014 US$'000	2013 US$'000
Trade payables	**189,257**	131,526
Accrued expenses	**220,723**	231,295
Over-lift position	**13,108**	–
Other payables	**5,982**	489
	429,070	363,310

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:

	2014 US$'000	2013 US$'000
Not later than one year	**2,031**	2,703
After one year but not more than five years	**3,733**	3,267
Over five years	**1,335**	2,235
	7,099	8,205

Lease payments recognised as an operating lease expense during the year amounted to US$3,086,000 (2013: US$2,676,000).

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$13,976,000 (2013: US$24,363,000).

(ii) Finance lease commitments

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

25. Commitments and contingencies (continued)

	2014 Minimum payments US$'000	2014 Present value of payments US$'000	2013 Minimum payments US$'000	2013 Present value of payments US$'000
Due in less than one year	**37**	**36**	36	35
Due in more than one year but not more than five years	**37**	**36**	74	72
	74	**72**	110	107
Less future financing charges	**(2)**	**–**	(3)	–
	72	**72**	107	107

The leases are fixed rate leases with an effective borrowing rate of 2.37% (2013: 2.37%) and have an average remaining life of one year (2013: two years).

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 incurred an initial payment of US$100,000,000 which was paid during 2014.

(iii) Capital commitments
At 31 December 2014, the Group had capital commitments excluding the above lease commitments amounting to US$788,259,000 (2013: US$447,293,000).

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 costs to first production have been recovered.

In addition, there is contingent consideration of US$20,000,000 after the acquisition of EQ Petroleum Sabah Limited (previously Nio Petroleum (Sabah) Limited) which will be determined based on proven and probable reserves associated with an approved FDP on Blocks SB307 and SB308 in Malaysia. The exploration/appraisal well drilled in the area in 2014 was unsuccessful.

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, the costs of this well were impaired in 2014.

In the ordinary course of business there is a risk of disputes with partners, suppliers or customers relating to matters such as cost overruns, service provision or contractual terms. Should disputes emerge and become subject to formal legal proceedings the Group could face liabilities in the event of adverse determinations. As at the date of this report there are no material court or arbitration proceedings affecting the Group.

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 2014 (2013: 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:

	2014 US$'000	2013 US$'000
Short term employee benefits	**4,789**	3,775
Share-based payments	**3,375**	4,314
Post employment pension benefits	**42**	31
	8,206	8,120

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 2014 and 2013 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

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

The Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months production on a rolling annual basis, up to 60% in the following 12 month period and 50% in the subsequent 12 month period.

Details of the commodity derivative contracts entered into during, and on hand at the end of 2014, are disclosed in note 21.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price, on the fair value of derivative financial instruments, with all other variables held constant:

	Pre-tax profit		Total equity	
	+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 2014	**–**	**–**	**(14,495)**	**37,910**
31 December 2013	(76,379)	52,541	(29,024)	19,966

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. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 1% (2013: 1%) of the Group's sales and 91% (2013: 91%) of costs are denominated in currencies other than the functional currency.

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 2014, a total of £182,000,000 of Sterling exposure was hedged using this structured product with an average strike price of US$1.46:£1. If the spot rate at expiry of the contracts was above US$1.64:£1 then there was no trade and the Group funded its Sterling requirement through the spot market or drew Sterling on the bank facility. Between US$1.64:£1 and US$1.33:£1, EnQuest traded at the lower of US$1.46:£1 and the spot rate and below US$1.33:£1, EnQuest traded a higher volume of currency at US$1.46:£1.

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

During 2014, EnQuest entered several foreign exchange swap contracts when Sterling was trading above $1.66:£1. The realised impact of US$46,756,000 has been recognised in the income statement within cost of sales.

The following table summarises the sensitivity to a reasonably possible change in the United States Dollar to Sterling foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact in equity is the same as the impact on profit before tax. The Group's exposure to foreign currency changes for all other currencies is not material:

	Pre-tax profit	
Change in United States Dollar rate	**Year ended 31 December 2014 US$'000**	Year ended 31 December 2013 US$'000
+10%	**(75,962)**	(68,931)
-10%	**75,962**	68,931

27. Risk management and financial instruments (continued)

Credit risk

The Group trades only with recognised international oil and gas operators and at 31 December 2014 there were no trade receivables past due (2013: nil), US$490,000 of joint venture receivables past due (2013: US$1,981,000) and US$1,955,000 (2013: nil) of other receivables past due but not impaired. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	2014 US$'000	2013 US$'000
Less than 30 days	**183**	4
30–60 days	**–**	–
60–90 days	**5**	–
90–120 days	**2**	–
120+ days	**2,255**	1,977
	2,445	1,981

At 31 December 2014, the Group had three customers accounting for 89% of outstanding trade and other receivables (2013: two customers, 72%) and three joint venture partners accounting for 95% of joint venture receivables (2013: three joint venture partners, 99%).

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. During 2014, the Group performed within the financial ratios applicable (and forecast for) that period as allowed for by its revolving credit facility. In light of recent low oil prices and in order to provide flexibility for EnQuest's capital investment programme, the revolving credit facility lending banks have agreed to relax existing credit facility covenants subsequent to the year end. The net debt/ EBITDA covenant has been increased to five times and the ratio of financial charges to EBITDA is reduced to three times, both until mid-2017.

At 31 December 2014, the Group held a six year US$1,700,000,000 multi-currency revolving 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.

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

Year ended 31 December 2014	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	**–**	**27,100**	**65,959**	**52,210**	**217,649**	**362,918**
Bond	**–**	**58,813**	**58,813**	**176,439**	**1,017,266**	**1,311,331**
Obligations under finance leases	**–**	**37**	**37**	**–**	**–**	**74**
Accounts payable and accrued liabilities	**429,070**	**–**	**–**	**–**	**–**	**429,070**
Other liability	**–**	**66,228**	**5,653**	**–**	**–**	**71,881**
Carry provision	**–**	**–**	**80,000**	**–**	**–**	**80,000**
	429,070	**152,178**	**210,462**	**228,649**	**1,234,915**	**2,255,274**

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

27. Risk management and financial instruments (continued)

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 2014	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
Commodity derivative contracts	–	24,374	24,052	–	–	48,426
Commodity derivative contracts	–	–	(6,130)	–	–	(6,130)
Foreign exchange forward contracts	–	78,313	48,514	–	–	126,827
Foreign exchange forward contracts	–	(78,893)	(56,296)	–	–	(135,189)
	–	23,794	10,140	–	–	33,934

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)
	–	–	–	–	–	–

At 31 December 2013, the Group held commodity forward contracts for which, based on the oil price at 31 December 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 note 20, 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 85.

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% of the non US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, 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.

The Board regularly reassesses the existing dividend policy to ensure that shareholder value is maximised. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

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

	2014 US$'000	2013 US$'000
Loans, borrowings and bond net (A)	1,109,596	453,896
Cash and short term deposits	(176,791)	(72,809)
Net debt/(cash) (B)	932,805	381,087
Equity attributable to EnQuest PLC shareholders (C)	1,359,873	1,484,709
Profit for the year attributable to EnQuest PLC shareholders (D)	(176,409)	189,604
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	137,409	191,416
Gross gearing ratio (A/C)	0.816	0.306
Net gearing ratio (B/C)	0.686	0.257
Shareholders' return on investment (D/C)	(13%)	13%
Shareholders' return on investment excluding exceptionals (E/C)	10%	13%

28. Post balance sheet events

In February 2015, EnQuest announced that it had exited from its small investment in Tunisia. The transaction had been conditional on an appropriate response from the Tunisian authorities and with the backstop date for the transaction having passed without the required response, the parties elected not to extend. Potential consideration of $22 million had been kept in escrow, this was duly returned to EnQuest after the year end.

In 2015, the Group renegotiated financial convenants under its RCF to provide greater flexibility for its capital investment programme. The net debt/EBITDA covenant has been increased to five times and the ratio of financial charges to EBITDA is reduced to three times, both until mid-2017.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

29. Subsidiaries

At 31 December 2014, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Dons Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Oceania Limited(i)	Exploration, extraction and production of hydrocarbons	Cayman Islands	100%
EnQuest Heather Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited(i)	Extraction and production of hydrocarbons	England	100%
Stratic Energy (UK) Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited(i)	Intermediate holding company	England	100%
Grove Energy Limited	Intermediate holding company and exploration of hydrocarbons	Canada	100%
EnQuest ENS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS(i)	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited(i)	Leasing	England	100%
EQ Petroleum Sabah Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited(i)	Dormant	England	100%
EQ Property Limited(i)	Property development	England	100%
EnQuest Energy Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
EQ Petroleum Production Malaysia Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited(i)	Provision of Group manpower and contracting/ procurement services for the International business	England	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited(i)	Dormant	England	100%
EnQuest UK Limited(i)	Dormant	England	100%
EnQuest ED Limited(i)	Dormant	England	100%
EQ Petroleum Developments Malaysia SDN. BHD(i)	Exploration, extraction and production of hydrocarbons	Malaysia	100%

(i) Held by subsidiary undertaking.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

COMPANY BALANCE SHEET

AT 31 DECEMBER 2014

	Note	2014 US$'000	2013 US$'000
Fixed assets			
Investments	3	**1,358,737**	1,349,177
Current assets			
Debtors			
– due within one year	5	**13,355**	224,681
– due after one year	5	**706,390**	–
Cash at bank and in hand	4	**1,468**	668
		721,213	225,349
Creditors: amounts falling due within one year	8	**(20,217)**	(118,859)
Net current assets		**700,996**	106,490
Total assets less current liabilities		**2,059,733**	1,455,667
Creditors: amounts falling due after one year	9	**(882,561)**	(254,500)
Net assets		**1,177,172**	1,201,167
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**	905,890
Other reserve	11	**40,143**	40,143
Share-based payment reserve	11	**(17,697)**	(10,280)
Profit and loss account	11	**135,403**	151,981
		1,177,172	1,201,167

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

The financial statements on pages 120 to 124 were approved by the Board of Directors on 18 March 2015 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Corporate information

The Company financial statements of EnQuest PLC (the Company) for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 18 March 2015.

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, Malaysia and the Norwegian North Sea.

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. The parent Company's accounts present information about it as an individual undertaking and not about its group. EnQuest reported a loss for the financial year ended 31 December 2014 of US$16,578,000 (2013: loss US$15,327,000). There were no other recognised gains or losses in the period (2013: 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 pages 42 and 43 in the Financial Review 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 and interest bearing long term funding to and from subsidiaries. These are recognised at the fair value of consideration received or paid. Amounts receivable are stated net of any provision for impairment.

Derivatives

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

The Group categorises derivatives as follows:

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

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

Employee Benefit Trust

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

Share-based payment transactions

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

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 2013	1,448,371	808	1,449,179
Additions	75,998	–	75,998
At 31 December 2013	1,524,369	808	1,525,177
Additions	8,914	–	8,914
Transfers	(343)	989	646
Write-off	(176,000)	–	(176,000)
At 31 December 2014	**1,356,940**	**1,797**	**1,358,737**
Provision for impairment			
At 1 January 2013	–	–	–
Impairment charge for the year	176,000	–	176,000
At 31 December 2013	176,000	–	176,000
Write-off of investment previously impaired	(176,000)	–	(176,000)
At 31 December 2014	**–**	**–**	**–**
Net book value			
At 31 December 2014	**1,356,940**	**1,797**	**1,358,737**
At 31 December 2013	1,348,369	808	1,349,177
At 31 December 2012	1,448,371	808	1,449,179

During the year ended 31 December 2014, the Company's subsidiary EnQuest North Sea BV transferred its holding of shares in Ascent Resources plc at net book value. These are included within 'other listed investments'. The Company also acquired subsidiary undertaking NSIP Limited, owner and operator of the Kittiwake to Forties oil export pipeline, as part of the Company's acquisition of Greater Kittiwake Area assets from Centrica. On 16 December 2014, the Company transferred its investment in subsidiary EnQuest Norge Limited to EnQuest Global Limited, another subsidiary entity.

Additions during the year ended 31 December 2013 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 resulted in a reduction in the subsidiary's net assets, which created an impairment in the Company's investment in the subsidiary in the year ended 31 December 2013. During 2014, EnQuest North Sea BV was dissolved and therefore the investment previously impaired was written off.

Details of the Company's subsidiaries at 31 December 2014 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 11% 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

	2014 US$'000	2013 US$'000
Cash at bank and in hand	**1,468**	668

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

	2014 US$'000	2013 US$'000
Due within one year		
Amounts due from subsidiaries	**13,355**	224,681

	2014 US$'000	2013 US$'000
Due after one year		
Amounts due from subsidiaries	**706,390**	–

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of US$16,623,000 (2013: US$2,481,000) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

7. Derivative financial instruments

	2014 US$'000	2013 US$'000
Financial instruments at fair value through profit or loss		
Creditors: amounts falling due within one year		
Derivatives not designated as hedges:		
Commodity forward contracts	–	3,704
	–	3,704
Total creditors: amounts falling due within one year	–	3,704
Total liabilities	–	3,704

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.

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.

8. Creditors: amounts falling due within one year

	2014 US$'000	2013 US$'000
Bond interest	**12,689**	4,291
Amounts due to subsidiaries	**6,931**	110,096
Derivative financial instruments (note 7)	–	3,704
Accruals	**597**	768
	20,217	118,859

9. Creditors: amounts falling due after one year

	2014 US$'000	2013 US$'000
Bonds	**882,561**	254,500

In April 2014, the Group issued a US$650,000,000 high yield bond which matures in 2022 and pays a coupon of 7% bi-annually in April and October.

At 31 December 2014, the Company also held a 5.5% Sterling Retail Bond of £155,245,000. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

10. Issued share capital

	2014 US$'000	2013 US$'000
Allotted, called up and fully paid 802,660,757 (2013: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249

At 31 December 2014 there were 29,691,691 shares held by the Employee Benefit Trust (2013: 25,510,520). 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 2014	52,184	905,890	40,143	(10,280)	151,981	1,139,918
Share-based payments charge	–	–	–	8,468	–	8,468
Loss for the year	–	–	–	–	(16,578)	(16,578)
Reclassification to merger reserve	–	–	–	–	–	–
Shares purchased on behalf of Employee Benefit Trust	–	–	–	(15,885)	–	(15,885)
At 31 December 2014	**52,184**	**905,890**	**40,143**	**(17,697)**	**135,403**	**1,115,923**

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 (2013: nil).

14. Auditor's remuneration

The Company paid US$10,400 (2013: US$10,400) to its auditor 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.

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Financial Calendar
27 May 2015: 2015 Annual General Meeting
August 2015: 2015 Half Year Results

Glossary
For a full list of Company definitions, please visit the Glossary in the media centre section of our website www.enquest.com.

Forward looking statements:
This report may contain certain forward looking statements with respect to EnQuest's expectation and plans, strategy, management's objectives, future performance, production, costs, revenues, reserves and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this report should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.

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