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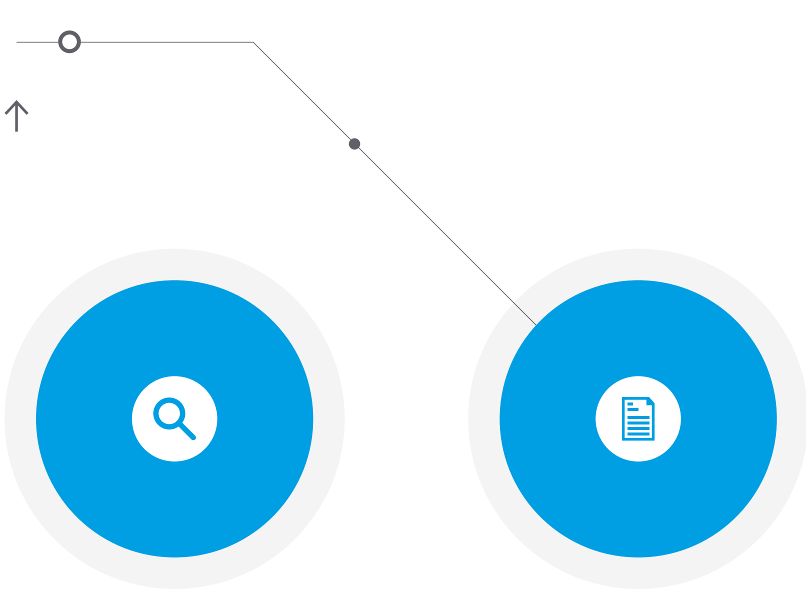

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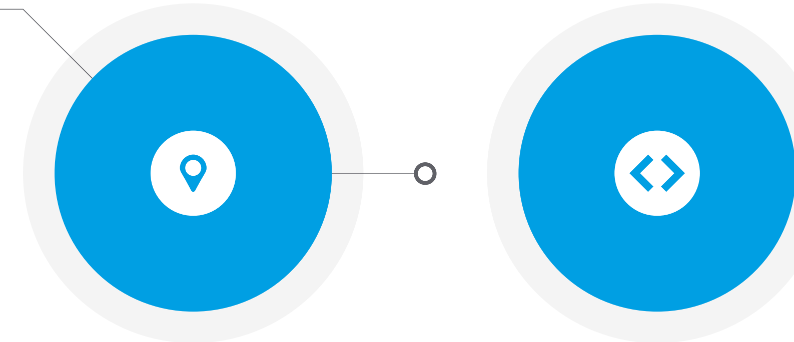

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Focus on delivery

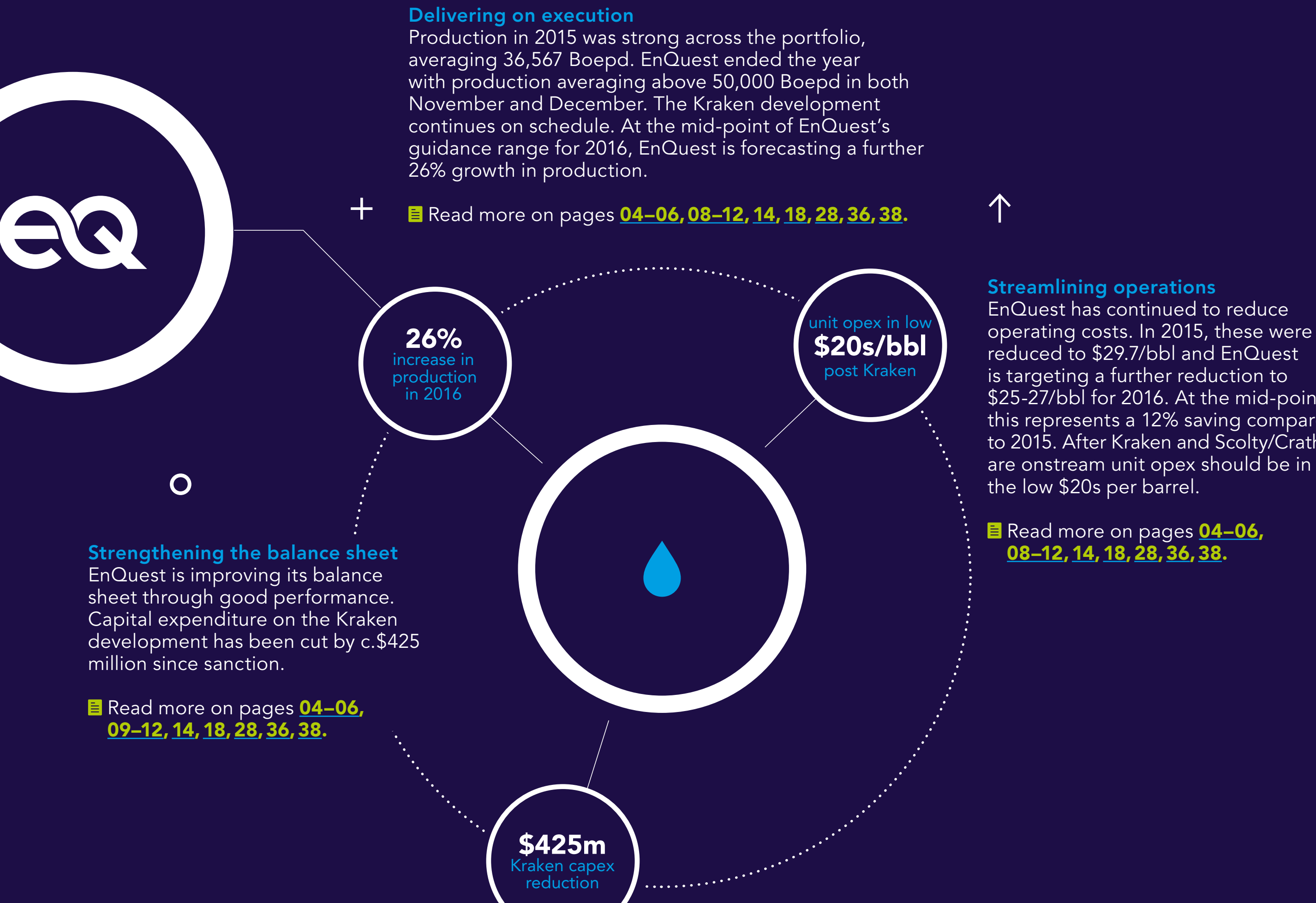
EnQuest PLC Annual Report & Accounts 2015

Focus on delivery

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

Strategic priorities in this low oil price environment

EnQuest is addressing its priorities in this low oil price environment: delivering on execution targets, streamlining operations and strengthening the balance sheet.



Delivering on execution

Production in 2015 was strong across the portfolio, averaging 36,567 Boepd. EnQuest ended the year with production averaging above 50,000 Boepd in both November and December. The Kraken development continues on schedule. At the mid-point of EnQuest's guidance range for 2016, EnQuest is forecasting a further 26% growth in production.

Read more on pages 04–06, 08–12, 14, 18, 28, 36, 38.

Streamlining operations

EnQuest has continued to reduce operating costs. In 2015, these were reduced to $29.7/bbl and EnQuest is targeting a further reduction to $25-27/bbl for 2016. At the mid-point, this represents a 12% saving compared to 2015. After Kraken and Scolty/Crathes are onstream unit opex should be in the low $20s per barrel.

Read more on pages 04–06, 08–12, 14, 18, 28, 36, 38.

Strengthening the balance sheet

EnQuest is improving its balance sheet through good performance. Capital expenditure on the Kraken development has been cut by c.$425 million since sanction.

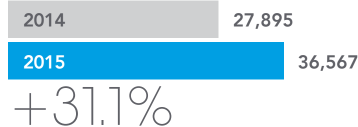
Read more on pages 04–06, 09–12, 14, 18, 28, 36, 38.

Highlights

2015

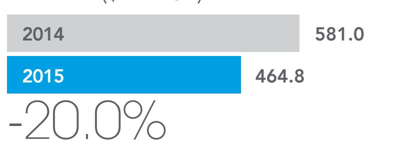
- Production averaged 36,567 Boepd in 2015, up 31% on 2014 and above EnQuest's guidance range. In both November and December, EnQuest production averaged over 50,000 Boepd. This reflected a very good operating performance in 2015, with continuing high levels of production efficiency.
- Continued to reduce operating costs, with full year 2015 unit opex at $29.7/bbl, compared to $42.1/bbl in 2014.
- Revenue of $906.6 million and EBITDA** of $464.8 million, reflecting the strong operational performance.
- Projects: Alma/Galia was brought onstream on 27 October 2015. The Kraken project continued on schedule and overall project savings of c.$300 million were achieved compared to the original sanctioned level of capital expenditure.
- Net 2P reserves of 216 MMboe*** as at start of 2016, down 4 MMboe after 2015 production of 13.3 MMboe, also reflecting the impact of lower oil price assumptions and of EnQuest's 10.5% additional interest in the Kraken development, acquired at the start of 2016. Net contingent resources were 146 MMboe at end of 2015.
- Non-cash post-tax tangible oil and gas asset impairments of $626.2 million, due to significant reduction in the oil price, particularly in the near term.
- Net debt at the year end, was $1,548.0 million, EnQuest was therefore well within its net debt to EBITDA covenant of five times, for 2015.

Production (Boepd)



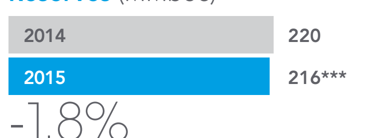
+31.1%

EBITDA ($ million)



-20.0%

Reserves (MMboe)

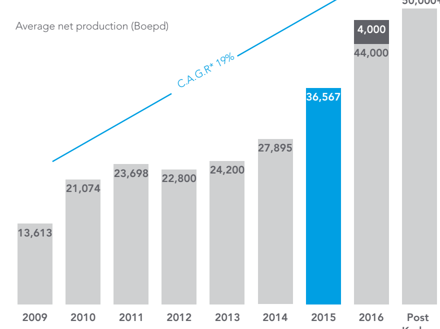


-1.8%

2016 Priorities & Outlook Highlights

- Hedging remains in place for 2016: 10 million barrels are hedged across 2016, at an average of $68 per barrel.
- Further cost reductions: Unit opex: EnQuest is now on course to achieve further reductions in average unit opex, in the range $25 – 27/bbl overall for 2016 and into the low $20s after the Kraken development is fully onstream. Total EnQuest 2016 cash capex has been reduced again, now at the low end of the previously announced $700 million to $750 million, despite including additional capex associated with the 10.5% increase in EnQuest's Kraken working interest. This is down from an equivalent initial 2016 cash capex budget of c.$950 million.
- EnQuest remains focused on its balance sheet strength and is also pursuing a range of further opportunities for debt reduction, including potential asset sales and continuing opex and capex cost reductions. As at 31 December 2015, cash and undrawn facilities totalled $496.0 million, giving sufficient liquidity to fund Kraken through first oil at prevailing prices.
- EnQuest reaffirms its production guidance for the full year 2016 at an average of between 44,000 Boepd to 48,000 Boepd.
- Projects: Six Alma/Galia production wells have now been commissioned and are all expected to be onstream by early Q2 2016. The Kraken FPSO is on course for departure from Singapore in 2016, and the development is continuing on schedule for first oil in 2017. Since capex savings of c.$300 million were announced in 2015, a further c.$125 million reduction has been made against Kraken's full cycle gross capex budget.

31% production increase in 2015, c.26% in 2016, then further substantial increases beyond



Guidance range for 2016 is an average of between 44,000 Boepd and 48,000 Boepd.
* Compound annual growth rate.

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** 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.

*** Includes additional 10.5% share of Kraken acquired on 1 January 2016.

EnQuest field optimisation

Turning maturing field decline into production growth and economic field life extension.

In a low oil price environment in which development of new production is constrained, EnQuest's low cost approach is a competitive advantage. EnQuest is the right company to turn around the performance of maturing assets, assets which had high operating costs and low levels of production efficiency before EnQuest took over operatorship. Here are four 'before' and 'after' examples, showing how EnQuest has increased production in each case.

In 2010, EnQuest's work programme for Thistle included; modern seismic, the successful reactivation of the old drill rig, the drilling of new wells, a major power supply upgrade, the introduction of new and simplified process controls and safety systems and integrity work on the platform topsides. These measures returned Thistle to production levels it had not achieved since the 1990s. In 2015, six years after EnQuest started this programme, Thistle was still delivering very high levels of production efficiency, in the mid-80s%, on EnQuest's analysis.

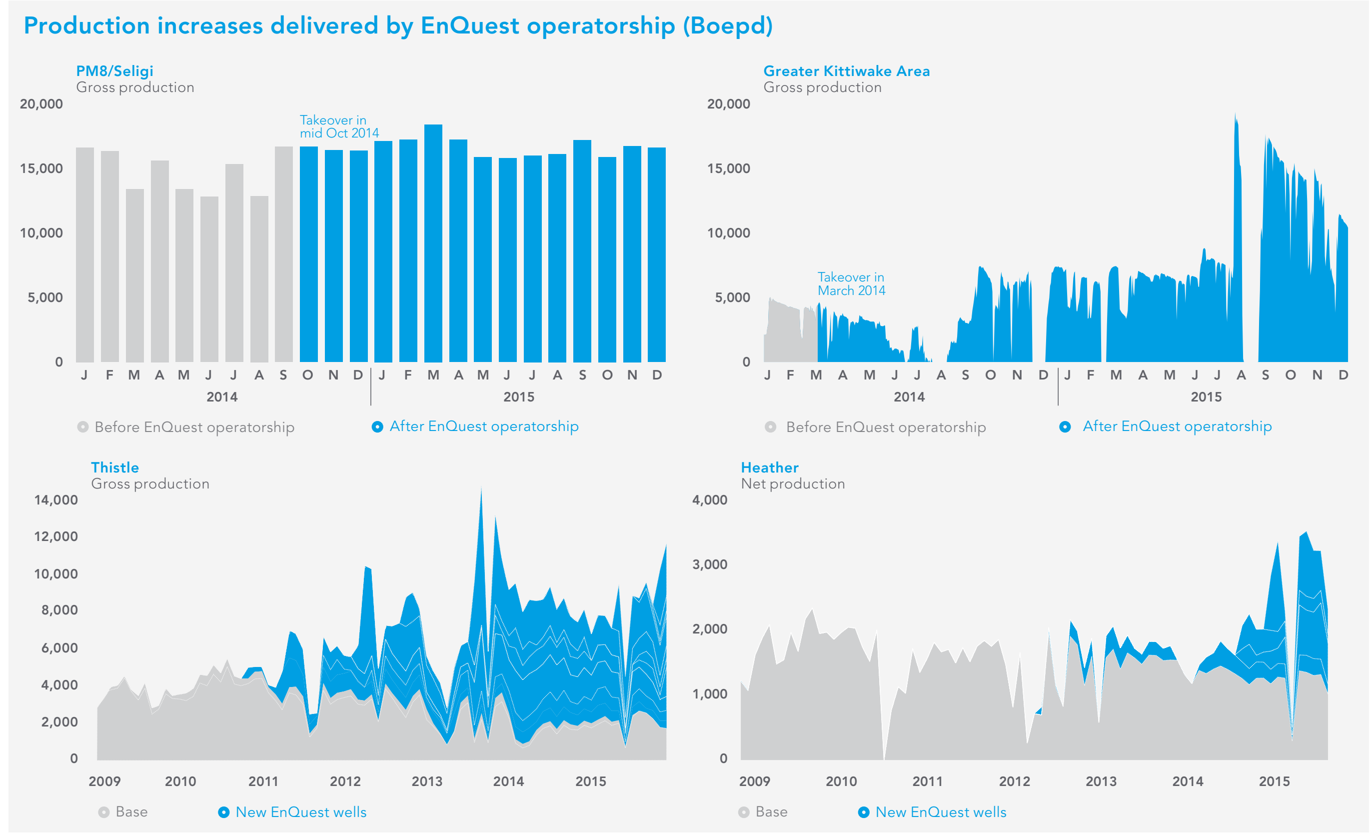
After Thistle, a similar approach was taken at Heather/Broom. Rig reactivation, drilling workovers and new wells, a new injection flowline and significantly increased water injection, have all materially increased production levels. Heather/Broom also achieved production efficiency in the mid-80s% in 2015.

In 2014, EnQuest acquired interests in both the Greater Kittiwake Area ('GKA') in the North Sea and the PM8/Seligi Production Sharing Contract in Malaysia, both of which swiftly recouped their original investment and which achieved strong production growth in 2014 and 2015.

At the Greater Kittiwake Area hub, EnQuest's first priorities were to rejuvenate the well stock, to raise production efficiency and to significantly reduce unit operating costs, from over $100 per barrel at the time of the acquisition. The Mallard well was worked over, the Gadwall well was side-tracked and dissolver treatments were implemented, all of which has driven production from 2,000 Boepd levels around the time EnQuest took over operatorship, to between 14,000 Boepd and 16,000 Boepd for much of the last quarter of 2015. Production efficiency was taken from very low levels to around 80% in 2015, with unit operating costs substantially down, to below $30/bbl.

At PM8/Seligi in Malaysia, EnQuest assumed operatorship in October 2014 and through an early programme focusing on facility integrity, gas compressor reliability and idle well restoration, quickly increased production from 12,400 Boepd to 15,100 Boepd. This has been achieved before any new drilling has taken place. Production efficiency has also been enhanced, from 82%, to over 90% in 2015.

Production increases delivered by EnQuest operatorship (Boepd)



c.$425m

reduction in the cost of the Kraken development

over 70% reduction

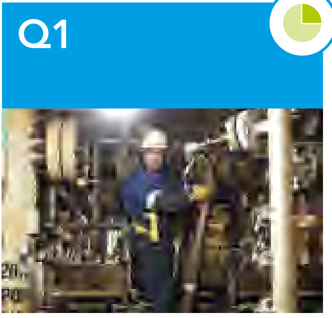
unit opex rates at GKA have been reduced by more than 70%

Scolty/Crathes

development sanctioned

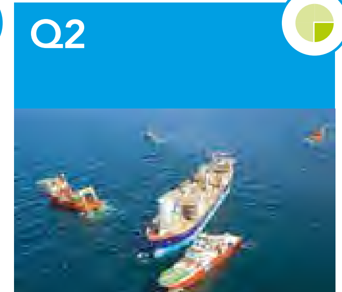
2015 Achievements

Q1



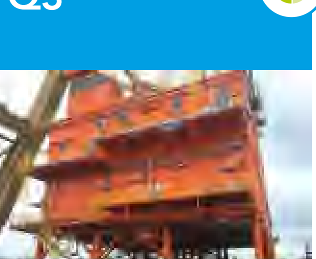
- Oil price hedging was put in place for 2016. 10 million barrels are hedged in 2016, at an average of $68/bbl
- The Alma/Galia FPSO vessel left the yard in Newcastle and successfully completed marine performance trials
- In the lower oil price environment, the covenants on EnQuest's credit facility were relaxed, providing greater flexibility for the capital investment programme
- Drilling operations on the first well in the new development of the Ythan field continued through Q1 2015
- The Heather H48 sidetrack was completed as was the H66 production well
- Development of the Tanjong Baram field was underway in Malaysia

Q2



- EnQuest confirmed that the Kraken development was continuing on schedule and on budget
- Drilling recommenced at Thistle in April 2015. Completion operations are ongoing on the first well, 'A61', which exceeded pre-drill expectations
- Drilling operations on the Ythan production well completed in April
- Replacement of the Broom water injection flowline was completed
- The final EnQuest Producer anchor chain was successfully installed
- Installation of the mooring system for the Kraken FPSO commenced
- The new Ythan production well was completed, tied in and brought online at levels ahead of expectations
- First production from the Tanjong Baram field was delivered
- Covenants on EnQuest's retail bond were reset, similarly to those on the credit facility

Q3



- Batch drilling of the top-holes at the first Kraken drill centre was completed
- Additional Thistle production well, A62/53, was placed on production
- Two additional production wells were added to the Thistle/Deveron work programme, one to be drilled on Deveron and a crestal well in the Western Fault Block
- The redundant Gadwall production well was successfully sidetracked and was brought onstream on schedule with encouraging results, peaking at over 19,000 Boepd
- A successful chemical treatment was undertaken on Goosander, raising production levels substantially from GKA
- The ongoing programme of well intervention and rectification on PM8/Seligi in Malaysia was proving successful, resulting in good production improvements

Q4

- The Scolty/Crathes development field development plan was approved by the Oil & Gas Authority – the only offshore pure oil field approval in 2015 and sanctioned by the partners. EnQuest is the operator
- In Q4 a 10% reduction was achieved off the Kraken full project gross capex, approximately $300 million. A further c.$125 million was secured in Q1 2016
- First oil was achieved from Alma/Galia. Initial spot production rates of 14,000 Boepd were achieved. The EnQuest Producer was performing well. The EnQuest Producer's first cargo of oil was lifted from the vessel in December
- The GKA hub reduced unit opex, which had been over $100/bbl at the time of the acquisition, to below $30/bbl
- The Kraken submerged turret/buoy was transported to the field and successfully installed. The first drill centre was fully connected to the turret/buoy. The drilling programme was ahead of schedule

EnQuest's strategy

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

EnQuest's current strategic priorities

In this low oil price environment, EnQuest's priorities are to deliver on execution targets, to streamline operations and to strengthen the balance sheet.

Turning opportunities into value by targeting maturing assets and undeveloped oil fields

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; these capabilities include subsurface, facilities planning and drilling. In 2015, EnQuest again delivered production efficiency levels which we believe rank it as one of the best operators in the UK North Sea. EnQuest is now replicating these performance levels in Malaysia, where EnQuest has already had considerable success with its programme to revitalise previously idle wells. EnQuest believes that these technical skills, its operational scale, its financial resilience and high levels of operating and cost efficiency, all leave it well positioned to deliver its long term sustainable growth strategy.

EnQuest is a company of substantial operational size. EnQuest has always been focused on controlling its cost base. Testament to which is the fact that in its first years, prior to current low oil prices, EnQuest was able to keep its unit operating costs broadly flat, while average costs in the UK North Sea doubled. Since the oil price decline which started around the middle of 2014, EnQuest has made further significant cuts to its cost base and continues to work with the supply chain and contractors to achieve additional savings. Despite having extensive operations in the relatively high cost operating environment of the northern North Sea, EnQuest is on track to reduce its operating costs from the mid-$40s per barrel in 2014, to the low $20s per barrel, targeting $25-$27/bbl in 2016, then reducing again when the low unit opex Kraken and Scolty/Crathes developments come onstream. EnQuest's production efficiency and cost control skills are essential in the current macro environment. 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, GKA, PM8/Seligi

In 2015, despite the positive impact of an additional 10.5% interest in Kraken (effective from 1 January 2016) and a reserve increase from revisions to estimates at PM8/Seligi, EnQuest's production of 13MMboe, combined with the negative impact of lower future oil price assumptions, led to a net reduction of 4MMboe in EnQuest's net 2P reserves.

Read more on pages 18, 35.

Commercialising and developing discoveries

Scolty/Crathes

The sanction of the Scolty/Crathes development in 2015, built on the 2014 development planning, which had allowed Scolty/Crathes to be promoted to 2P reserves that year.

Read more on pages 12, 20, 32.

Making selective acquisitions and divestments

Egypt, Tunisia, Norway, Malaysia

In the context of low oil prices and, as part of its investment prioritisation programme, in 2015 EnQuest disposed interests in Norway, Egypt and Tunisia and sold its exploration assets in Malaysia. It also relinquished interests in a number of licences in the UK. No decrease to reserves was required as a result of these disposals. In Q1 2016, EnQuest acquired an additional 10.5% working interest in Kraken.

Read more on pages 06, 20.

Converting contingent resources into reserves

In 2014 as a result of development planning, contingent resources were promoted to reserves in relation to Scolty/Crathes and Ythan. In the context of EnQuest's prevailing strategic priorities, whilst the Scolty/Crathes proposals were confirmed, no new projects received such development planning approvals in 2015 and consequently there were no additional promotions to reserves.

Read more on pages 12, 20, 30, 32.

EnQuest's business model

Realising value through capability

EnQuest has the right mix of capabilities, which focus on production and development 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.

The low oil price environment has acted as a catalyst, swiftly driving further forward and substantially upscaling initiatives which EnQuest already had in place to streamline operations. A new lower cost structure is now being institutionalised, with unit opex in the $20s per barrel, adapting EnQuest's business model for an extended period of low oil prices.

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

Read more on pages 18, 28, 36.

Marginal field solutions

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

Assets

- The Don fields, including Ythan
- Alma/Galia
- Tanjong Baram

- Dormant fields
- Access through majors and licensing rounds

Read more on pages 14, 18, 28.

New developments

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

Assets

- Kraken
- Scolty/Crathes

- Access through smaller companies
- Ex majors

Read more on pages 10, 12, 18, 28, 38.

EnQuest’s asset base and production growth

EnQuest’s principal UK assets at the end of 2015 were its interests in the producing operated oil fields Heather/Broom, Thistle/Deveron, the Dons area, the Greater Kittiwake Area and Alma/Galia, also in the Kraken and Scolty/Crathes developments. EnQuest also has a non-operated interest in the producing Alba oil field. In Malaysia, EnQuest’s operated assets include the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract.

Investment prioritisation and asset disposals

In 2015, as part of its programme of investment prioritisation and asset disposals, EnQuest ceased to have interests in Egypt, Tunisia and Norway and also sold its exploration assets in Malaysia. In the UK since the start of this low oil price environment, EnQuest has relinquished or otherwise disposed of interests in a number of licences. At the end of 2015, EnQuest had interests in 30 UK production licences, covering 42 blocks or part blocks, and was the operator of 25 of these licences.

In Q1 2016, EnQuest acquired an additional 10.5% working interest in Kraken.

Production highlights

Total EnQuest performance

36,567 Boepd across 2015, up 31% on 2014

- 43,359 Boepd in H2 2015, up 49% on H1 2015
- Both November and December 2015 averaged over 50,000 Boepd

Greater Kittiwake Area

Up over three times production in 2014

- Achieved over 19,000 gross peak production following Gadwall sidetrack

Alma/Galia

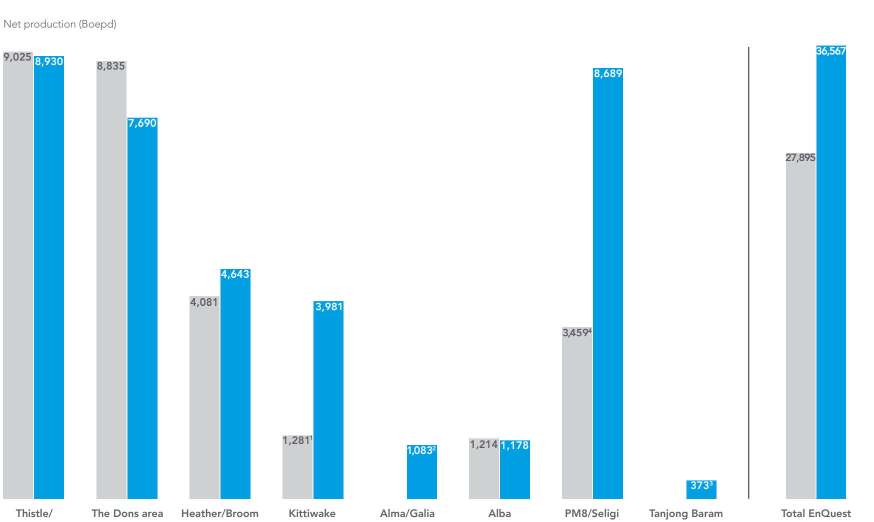
- Alma/Galia produced 14,000 Boepd gross on a spot basis in its first few weeks

PM8/Seligi

- Net 8,689 Boepd across 2015, 24% of total EnQuest production

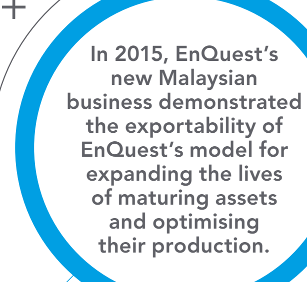
Production results year 2015

Strong production, up 31% year on year



2014 2015

1 Net production since the completion of the acquisition at the start of March 2014, averaged over the twelve months to the end of 2014.
2 Net production since first oil on 27 October, averaged over the twelve months to the end of 2015.
3 Net production since the completion of the acquisitions at the end of June 2014, averaged over the twelve months to end of December 2014.
4 Net production since first production in June, averaged over the twelve months to the end of 2015.



EnQuest is delivering substantial increases in production:

- Guidance for average production in 2016 is between 44,000 Boepd and 48,000 Boepd
- Six Alma/Galia wells have now been commissioned and are all expected to be onstream by early Q2 2016
- First oil from Scolty/Crathes in 2017, with net peak oil of c.5,000 Boepd anticipated

North Sea

South East Asia

Focused on skills and execution

EnQuest's strong production performance in 2015 was underpinned by high operational uptimes and excellent levels of production efficiency.

EnQuest the cost efficient operator

EnQuest's North Sea production efficiency has again been excellent, despite the deep and ongoing programme of cost reductions. In 2014, EnQuest had a top quartile position in Oil & Gas UK's rankings, with an Oil & Gas UK rating of 65%. Peer data is not yet available for 2015, however in 2015, despite a longer than normal planned maintenance shutdown period, EnQuest again delivered a very strong performance, internally assessed to have been 77%. Without planned maintenance losses, EnQuest assessed its 2015 production to have been at 82%. Production efficiency directly contributes to cost efficiency.

Since 2014, new cost savings have been achieved across the business. EnQuest's operating cost reduction initiatives have focused on three key areas:

- Lower unit rates: Examples are scale treatments, subsea inspection, repairs and maintenance, logistics, equal time rotas and reduced contractor rates
- Incentivised contract structures: KPI structures for our service providers ensures payment is linked to performance
- Enhanced contract and procurement practices. EnQuest has moved its procurement team to Dubai to take advantage of lower global costs

Transportation costs have also reduced; EnQuest is working with the Sullom Voe Terminal ('SVT') operator to reduce gross cost levels and agree cost allocation based on usage. Unit transportation costs have improved and we expect reductions to continue.

General and administration costs for 2015 have achieved the lower end of the previous targeted range, reflecting further savings initiatives and reductions in the size of the direct workforce. The overall EnQuest 2015 2015 drilling programme was below budget, with very high operating efficiencies across EnQuest's operated rigs and significantly lowered spread rates.

Performance

The strong 2015 production performance result 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. By aligning the interests of its teams and through its high level of direct control EnQuest can 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 in-house skills and on execution

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

Key performance indicators

EnQuest continues to focus on its strategic priorities in this low oil price environment: strengthening the balance sheet, delivering on production and execution targets and streamlining operations.

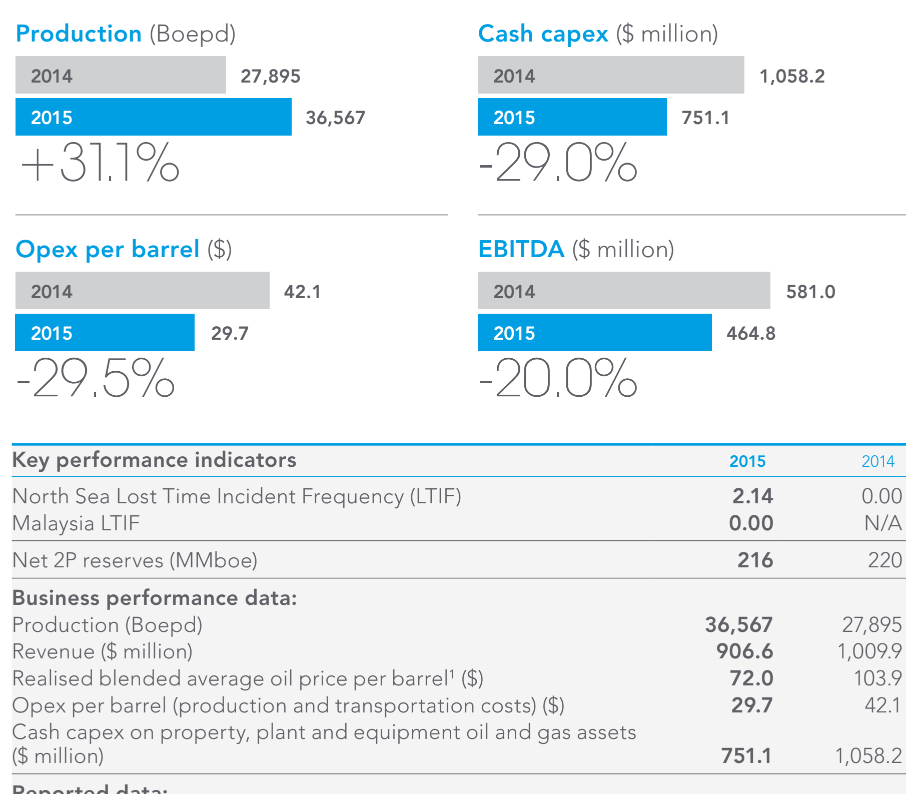
EnQuest continues to focus on its strategic priorities in this low oil price environment: strengthening the balance sheet, delivering on production and execution targets and streamlining operations. Significant reductions in both capex and opex have been achieved, in conjunction with continued excellent operational performance, enabling us to produce positive operational cashflows at current oil prices. At the start of 2016, EnQuest had $496.0 million of cash and undrawn facilities, giving sufficient liquidity to fund Kraken through first oil at prevailing oil prices.

In 2015, average production of 36,567 Boepd was up 31% year on year, above the 36,000 Boepd upper end of our guidance. This reflected high levels of operating efficiency and contributions from Alma/Galia and a full year contribution from Malaysia, which is now 25% of total production.

Since EnQuest's Operations Update in December 2015, we have taken further action on costs and are delivering additional savings, with unit operating costs now expected to be in the range of $25-27/bbl for 2016 and into the low $20s per barrel after Kraken is fully onstream. The Kraken full project capex had already been reduced by c.$300 million and EnQuest has since made a further c.$125 million reduction. The development itself continues to make strong progress, in particular the critical path conversion programme for the Kraken FPSO vessel is on schedule for its departure from Singapore for commissioning and hook up, with production in H1 2017.

EnQuest's high operating efficiency, great execution and low cost capabilities are essential for the challenges of the current market conditions.

See Chief Executive's report, Operating review, Financial review and Notes to the Group Financial Statements for additional explanation and analysis.



Key performance indicators	2015	2014
North Sea Lost Time Incident Frequency (LTIF)	**2.14**	0.00
Malaysia LTIF	**0.00**	N/A
Net 2P reserves (MMboe)	**216**	220
Business performance data:		
Production (Boepd)	**36,567**	27,895
Revenue ($ million)	**906.6**	1,009.9
Realised blended average oil price per barrel[1] ($)	**72.0**	103.9
Opex per barrel (production and transportation costs) ($)	**29.7**	42.1
Cash capex on property, plant and equipment oil and gas assets ($ million)	**751.1**	1,058.2
Reported data:		
Cash generated from operations ($ million)	**221.7**	632.2
Net debt ($ million)	**(1,548.0)**	(967.0)
EBITDA ($ million)	**464.8**	581.0

1 Including revenue of $261.2 million (2014: $31.7 million) associated with EnQuest's effective oil price hedges.

Focus on
Kraken
ARMADA KRAKEN
Kraken

Strengthening the balance sheet

The capital cost of the project has been reduced by c.$425 million from the level of costs agreed at the time the project was originally sanctioned.

Kraken constitutes EnQuest's largest project to date, and is one of the biggest in the UKCS in recent years. The development, in which EnQuest now owns a 70.5% interest, is expected to deliver first oil in the first half of 2017.

Kraken has remained on schedule since sanction in 2013. On an overall project basis, in 2015 capex was reduced by approximately $300 million or 10% compared to sanction estimates.

This accomplishment was due to efficient execution of key elements, specifically the ongoing drilling programme, and, more broadly, a project environment shaped by robust planning and proactive management. Close agile collaboration with contractors and subcontractors and sustained scrutiny of all development activities, were key attributes of the project throughout 2015. Since the initial $300 million reduction, an additional reduction of $125 million has also been secured.

In terms of critical path progress, the successful installation of the submerged turret production buoy in the field marked an important deliverable in 2015.

With the mooring system for the Floating, Production and Storage and Offloading ('FPSO') vessel in place, and all subsea infrastructure established for drill centre one ('DC1'), there is now, in effect, connectivity from the wells that will be drilled on DC1 to the FPSO when it is installed. The installation of a final riser in 2016 will complete connectivity for DC2.

A successful 2015 drilling programme, completed ahead of schedule, is continuing into 2016. The two full well penetrations completed in 2015 produced data that correlate well with the previous subsurface prognosis.

The Singapore based conversion programme on the FPSO remains on schedule for first oil in 2017. Engineering work for the vessel and all modules was completed in 2015, and the electrical house installed. Construction, lifting and integration of the power, steam generation and primary process modules are scheduled for completion in H1 2016.

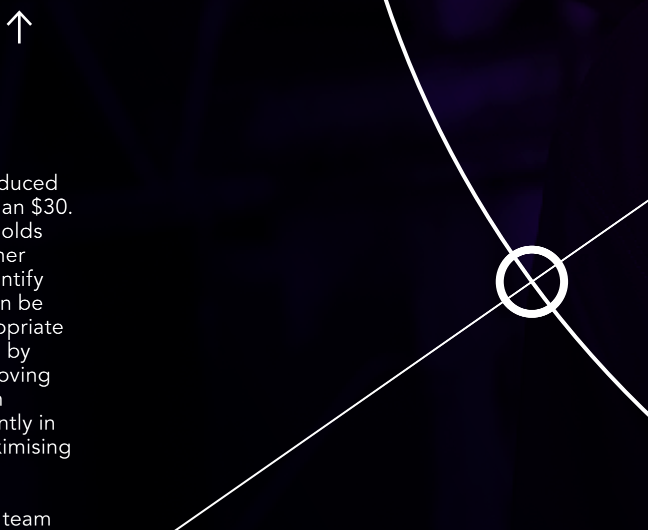
Read more on pages 18, 38.

Gross full cycle capital capex costs have been reduced by

$425 million

Focus on

Scolty/ Crathes



Streamlining operations

With unit operating costs of under $15/bbl in the initial peak volume years, Scolty/Crathes further streamlines EnQuest's overall operations.

The Scolty/Crathes development comprises two wells tied back to the Kittiwake platform in the Greater Kittiwake Area ('GKA'). In addition to its merits as a standalone project, Scolty/Crathes highlights the benefits of the hub strategy, extending as it does the life of the existing GKA hub to 2025. With unit operating costs of under $15/bbl in the initial peak volume years, Scolty/Crathes further streamlines EnQuest's overall operations.

Scolty/Crathes was the only pure oil offshore development approved by the Oil & Gas Authority in 2015. It is scheduled to yield first oil in the first half of 2017. EnQuest is the operator.

Scolty/Crathes fits with EnQuest's successful strategy at GKA, where since EnQuest's acquisition in 2014, production rates have increased from approximately 2,500 Boepd to around 12,500 Boepd at the end of 2015. GKA operating costs have been reduced from over $100 per barrel to less than $30. Scolty/Crathes, in which EnQuest holds a 50% working interest, is yet another example of EnQuest's ability to identify previously stranded fields which can be made commercially viable by appropriate access to nearby infrastructure and by bringing EnQuest's efficiency improving capabilities to bear. These are both objectives which featured prominently in Sir Ian Wood's 2014 Report on Maximising Economic Recovery in the UKCS.

In 2015, the Scolty/Crathes project team was successful in reducing the initially proposed development costs by 40%, during the Front End Engineering and Design stage. Following formal approval, initial work around all key workscopes was instigated in the closing months of 2015.

During 2016, the focus is upon delivery by the three main contractor areas; subsea, drilling and topside modifications. The topside facilities are being installed in an unused area of the platform, minimising disruption to Kittiwake operations.

The development also affords further time for potential GKA exploration activities in due course.

Read more on pages 18, 32.

Scolty/ Crathes

Unit operating costs of

Under $15/bbl

during initial peak volumes

Delivering on execution

The swift and successful execution of the field development plan.

The Tanjong Baram field in Malaysia reached first production on schedule in June 2015 after the swift and successful execution of the field development plan.

Having been awarded a risk service contract by PETRONAS for the field in the spring of 2014, EnQuest demonstrated its delivery capabilities by bringing Tanjong Baram into production within 14 months.

Tanjong Baram takes the form of an unmanned platform with two producing wells, tied back to the PETRONAS operated West Lutong A complex.

EnQuest had carried out detailed design work in tandem with the contract award process, in order to deliver a fast-track project.

Tanjong Baram is located off the Malaysian state of Sarawak. EnQuest sought to use the local supply chain wherever possible during a development which saw the platform substructure installed in February 2015, the subsea pipeline network completed in April and the platform topsides installed in May. Good working relationships with local contractors greatly facilitated the project.

Engagement with stakeholders, including partners PETRONAS and Uzma, regulatory authorities and contractors, was a priority throughout the development.

The same approach was beneficially applied throughout a field shut-in period following first production, with all parties working closely and co-operatively together. Modification work was undertaken to accommodate the volumes of liquids in the associated gas. The process was swiftly and efficiently managed. From initial issue identification to solution implementation, Tanjong Baram was back on stream in two months.

The field was achieving high reliability performance and production levels of close to 3,000 Boepd gross towards the end of 2015. As the first asset EnQuest has operated in Malaysia, the Tanjong Baram project has demonstrated EnQuest's operational credentials and ability to deliver in this market.

Read more on pages 18, 36.

First production was delivered in June 2015

Focus on

Tanjong Baram

Tanjong
Baram
Proving our
execution
capability
in a new operating region

Chairman's statement

"In 2015, EnQuest delivered an excellent operational performance, whilst at the same time significantly reducing costs given the low oil price environment."

Dr James Buckee
Chairman

EnQuest in 2015

Our strategic priorities are to grow production by delivering on operational and development execution, while reducing the operating cost base and strengthening the balance sheet. In 2015, EnQuest delivered an excellent operational performance, whilst at the same time significantly reducing cost, given the low oil price environment. 2015 cash capital investment was 29% down on 2014. In 2016, the focus is on the Kraken development.

Lower future oil price assumptions reduced overall reserves and EnQuest started 2016 with a net 2P reserve base of 216 MMboe. Notwithstanding this decrease, the new total represents a net 167% increase since EnQuest's formation six years ago or an 18% growth per annum and a current reserve life of 18 years.

Industry context

Prior to the oil price declines which started in 2014, the UK oil and gas industry had a high operating cost structure. The wake-up call of low oil prices galvanised the industry to cut costs. Since its inception, operating efficiency has been central to EnQuest. This is how, in its first five years, EnQuest was able to hold unit operating costs broadly flat, when on average they doubled across the UK North Sea. In practice, EnQuest has always been pursuing cost reduction strategies. The new lower cost base currently being forced on the oil and gas industry in the UK needs to represent a lasting structural change.

EnQuest believes that the need to protect critical infrastructure is an important objective in the current climate. If operators of these infrastructure nodes are considering cessation of production, the implications for other connected asset owners must be considered. Assets need to be in the hands of the right owners, owners who are operationally competent and who have the financial capability to make the level of investment required to fund not only current cost efficiency and investment programmes, but also to fund longer term growth. Simplification of the UK upstream tax regime and a programme of reduction in the headline level of oil and gas tax rates are essential to create certainty and to drive the investment needed to ensure optimal extraction of hydrocarbons, for the decades potentially still to come in the North Sea.

The Department of Energy & Climate Change's ('DECC') has an evolving strategy for 'Maximising Economic Recovery ('MER') for the UK', to ensure the North Sea is fully developed. The Oil & Gas Authority ('OGA') has been established as DECC's operationally independent executive agency and as a regulator. The UK Government has recently formed a North Sea oil group to provide support to the industry. EnQuest looks forward to adding value to these initiatives through applying its capabilities to optimise the recovery of oil from the North Sea.

EnQuest's performance in a lower oil price environment

The current period of lower oil prices started in the second half of 2014, when EnQuest implemented its oil price hedging programme and accelerated its programme of working closely with the supply chain to reduce operating and capital expenditure. In 2015, the cost base was further substantially reduced and the oil price hedging was increased and extended. The investment programme itself was materially cut back and reprioritised, with EnQuest deselecting and exiting a number of countries and assets.

Despite these challenges and the considerable reductions in previously planned levels of spending, EnQuest achieved an excellent operational performance in 2015. The very strong 31% year on year production growth represents a compound annual growth rate of 18% since EnQuest began. In its first full year, Malaysia has been established as a material part of the Group, with a 25% contribution to total production. The implementation of EnQuest's hub strategy at the Greater Kittiwake Area has already delivered considerable production and cost efficiency success and with the sanction of the adjacent Scolty/Crathes development is set to continue to do so. The Alma/Galia field achieved first oil in October 2015, with the FPSO finally being ready to accept hydrocarbons. Since its sanction in 2013, the Kraken development has consistently been on schedule and in 2015, through rigorous project management, it secured a c.10% reduction against its original approved capital costs, with further progress in 2016.

EnQuest's funding facilities include a $1.2 billion committed credit facility, with a $500 million accordion. In 2015, to provide greater flexibility for its capital expenditure programme, EnQuest renegotiated covenants with its lending banks and these were relaxed until mid-2017. The covenants were fully complied with in 2015 and ongoing continued compliance with its covenants remains a priority for 2016 and beyond.

The EnQuest Board

In August 2015, EnQuest welcomed Phillip Holland to the Board, as a new Non-Executive Director. Phil has extensive international project management experience in oil and gas, making him a valuable addition to the Board. Otherwise the composition of the Board remained constant during 2015. In 2016, Clare Spottiswoode will be retiring from the Board and will therefore not be standing for re-election at our forthcoming Annual General Meeting. The Board would like to extend its gratitude to Clare for her valuable contributions during her tenure with EnQuest.

The Directors assess and evolve EnQuest's strategy as appropriate, taking key decisions on its implementation.

In 2015, the strategic focus was on positioning the business for an extended period of lower oil prices, whilst also ensuring it continued to achieve its operational targets. Delivery of these ongoing programmes has only been possible due to the agility and collaboration of EnQuest's people. The Board would like to thank everyone at EnQuest for such an impressive performance in these challenging times.

Governance

The Board believes that the manner in which EnQuest conducts business is important and is committed to delivering the highest standard of corporate governance. Ensuring EnQuest has the right approach to governance and that the Board works effectively remain a key focus.

EnQuest is required to comply with the UK Corporate Governance Code, as revised in 2014. The Board is pleased to report that all the principles of the code were complied with in 2015. EnQuest embraces the spirit of the code and views corporate governance as an essential part of its framework, supporting structure, risk management and core values.

EnQuest's Corporate Responsibility is focused on Health and Safety, People, Environment, Business Conduct and Community. EnQuest is committed to operating responsibly and never knowingly compromises its health and safety standards to meet its operational objectives. Our approach to HSE&A management is built on our Company values. Through respect for our people, our contractors, our stakeholders and the environment, we pursue our principal aim: safe results, with no harm to people and respect for the environment.

EnQuest has developed an Environmental Management System to ensure its activities are conducted in such a way that EnQuest minimises and mitigates its impact on the environment. The system is aligned with the requirements of the International Organisation for Standardisation's ('ISO') environmental management system standard: ISO 14001:2004. EnQuest works to minimise its impact on the environment and report on and measure liquid waste, accidental spills, atmospheric emissions, waste management and continual improvement. Detailed environmental statements relating to EnQuest's operations are available on its website.

Dividend

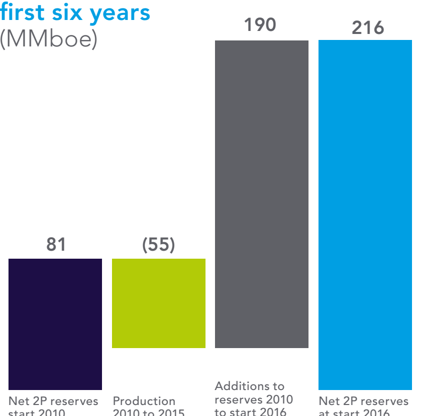
The Company has not declared or paid any dividends since incorporation and does not intend to pay dividends in the near future. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and on such other factors as the Board of Directors of the Company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

Delivering sustainable growth

In 2014, EnQuest started putting in place its programme to address lower oil prices. In 2015, EnQuest took that programme substantially further forward and has done so again in early 2016. EnQuest has a more positive long term view of oil prices than the levels which have prevailed in the first quarter of 2016. Nonetheless, EnQuest continues to manage rigorously on the planning assumption of a prolonged period of lower oil prices. With unit opex heading into the low $20s/bbl post Kraken, EnQuest is continuing to improve its position to cope with the current macro climate and beyond.

Strong reserves growth in EnQuest's first six years

(MMboe)



EnQuest values

Passion

Passion is a value that thrives at EnQuest, where a creative and collaborative culture has been cultivated. Your ideas are valued and exchanging these ideas is encouraged. It's commonplace to share your passion for resolving everyday challenges and to continually deliver on projects. It's this collective passion that keeps things exciting and makes me look forward to the next challenge here.

Haekal Hashim
Geologist, Subsurface

Chief Executive’s report

“EnQuest’s high operating efficiency, great execution and low cost capabilities are essential for the challenges of current market conditions.”

Amjad Bseisu
Chief Executive

EnQuest’s performance, business model and strategy, in a low oil price environment

EnQuest is working hard and is performing well in addressing the challenges of the low oil price environment. EnQuest is strengthening its balance sheet, delivering on production and execution targets and streamlining operations. EnQuest has a long standing culture and practice of rigorous cost discipline, essential in the current market conditions. EnQuest has actively hedged oil prices to protect its investment programme; hedging added $261.2 million to EBITDA in 2015. In addition, in 2016, 10 million barrels are hedged at an average of $68 per barrel. Execution in 2015 was marked by first oil from Alma/Galia, a transformation in performance from the Greater Kittiwake Area, substantial further progress on the Kraken development and a material first full year contribution from EnQuest’s business in Malaysia.

Production averaged 36,567 Boepd in 2015, above the upper end of the target range and up 31% on 2014, with production in H2 in particular strong across the portfolio. Production in H2 2015 was up 49% on H1, with the strong finish to the year including both November and December averaging over 50,000 Boepd. The Alma/Galia development was brought onstream in late October and the Kraken development was on schedule overall, with the drilling programme ahead of schedule. I am pleased to report an excellent operating performance overall.

Controlling costs and managing operations in an agile and efficient manner are core EnQuest competencies. Given the macro environment, EnQuest has driven even more operational streamlining initiatives, both in terms of pace and scale. 2015 unit operating costs were delivered ahead of target at $29.7/bbl. With further persistent granular work on all aspects of the operating cost base, EnQuest has improved its operating targets further, and in 2016 is on course to achieve an average unit opex in the range $25-27/bbl. This is achieved through both production increases and ongoing material cost reductions. Further unit opex reductions are set to follow, when the low operational costs of the Kraken and Scolty/Crathes developments are brought fully onstream. The resulting unit opex base will be in the low $20s per barrel, providing a sustainable lower cost base in a lower oil price environment.

In December 2015, the capex cost of the overall Kraken development was reduced by c.$300 million, and in early 2016 by a further c.$125 million. The 2015 drilling programme was delivered below budget, with very high efficiency levels across our operated rigs and with significantly lowered supplier rates.

Given the low oil price environment, in H1 2015, EnQuest negotiated a relaxation of covenants to its revolving credit facility and in its retail bond until mid-2017. This continued commitment from the lenders recognised the cash flow generation of EnQuest’s business and in particular those expected from the Kraken development. With 2016 capex focused on Kraken, net debt is planned to increase during 2016 ahead of Kraken first oil.

EnQuest produced 13.3 MMboe of oil in 2015, which combined with the impact of lowered future oil price assumptions and the inclusion of a 10.5% increase in the Kraken working interest, resulted in a 2% decrease in overall net 2P reserves to 216 MMboe at the start of 2016. EnQuest has increased net oil reserves by 135 MMboe over the last six years, and converted the equivalent of 68% of its original 81 MMboe reserves into flowing barrels. Notwithstanding the reductions to the investment programme, EnQuest remains on course to achieve annual net production well in excess of 50,000 Boepd, with six operated producing hubs in the UK and with the PM8/Seligi hub in Malaysia. Beyond Kraken, PM8/Seligi in particular has the potential to increase international production significantly over the coming years.

2015

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

In 2015, EnQuest met its commitment to deliver safe results.

In its UK operations, the frequency of Dangerous Occurrences (incidents with the potential to cause a major accident, such as hydrocarbon releases, dropped objects and lifting incidents) reduced by more than 30% from 2014, with only relatively minor incidents reported. The Lost-Time Injury ('LTI') Frequency Rate and the Recordable Injury Frequency Rate both remained low at 2.14 and 4.99 incidents per million man hours respectively; with the producing North Sea assets Kittiwake, Northern Producer and Heather achieving 10 years, 43 months and 34 months LTI free respectively.

In 2015 EnQuest also had a total of 11 safety and environmental inspections of its operated assets by UK regulators (Health and Safety Executive and Department of Energy & Climate Change) with no reported enforcement action.

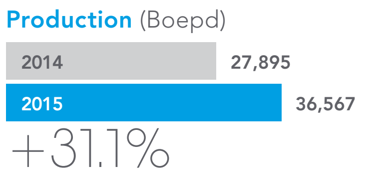
EnQuest values

Empowerment

EnQuest ensures that each employee feels empowered to deliver on the projects within their control. This sense of authority promotes efficiency and diligence within the organisation. It also allows EnQuest to be managed by a more nimble team. In the current landscape, this ability to readily adapt to market conditions provides us with a competitive advantage.

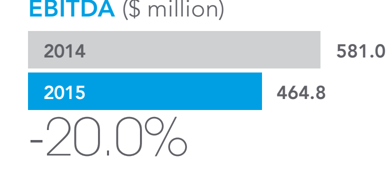
Joanna Siopis
Legal & Commercial Manager – International

Production (Boepd)



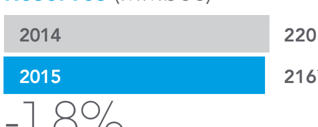
+31.1%

EBITDA ($ million)



-20.0%

Reserves (MMboe)



-1.8%

* Includes additional 10.5% share of Kraken acquired on 1 January 2016.

Chief Executive's report continued

In Malaysia, EnQuest delivered an excellent occupational health and safety performance, with no lost time injuries from 1.7 million man hours worked and only one recordable incident.

These results are a testament to EnQuest's unceasing focus on HSE&A.

North Sea operations

In 2015, EnQuest delivered strong production of 27,505 Boepd in the UK, 13% up on 2014. This reflects the continuing strength of field reservoir performance and continuing high production efficiency from EnQuest's existing UK assets and the inclusion of first production from Alma Galia.

In 2015, EnQuest's North Sea operations delivered an impressive operating performance. First oil from the Ythan development was achieved five months earlier than scheduled and produced oil was sustained at higher than expected rates. At Thistle, the success of the initial three well drilling programme resulted in further activity being added. These wells were delivered at 25% under budget, with three of the wells drilled having already achieved payback within 2015. The transformational post acquisition performance at the Greater Kittiwake Area ('GKA') has continued, with 2015 reported production of 3,981 Boepd compared to 1,281 Boepd in 2014. The sidetracking of the Gadwall well and resolution of gas-lift issues on Grouse were highlights of the 2015 programme of well rejuvenation and improved production efficiency.

Savings have been achieved across the business; GKA reduced unit opex from above $100/bbl, at the time of its acquisition, to below $30/bbl, partly due to significant increases in production, but also to cost reduction. EnQuest is continuing to work with the supply chain and contractors to achieve further cost savings and optimisation.

North Sea developments

Alma/Galia

First oil from the Alma/Galia development was achieved on 27 October 2015, following final commissioning of all the required systems. This final commissioning took longer than anticipated, due mainly to more work than expected being required on the cargo systems, as became apparent during testing, which was only possible when the vessel was offshore and in situ.

Production was increased in the second half of November as the Galia well was also brought onstream, adding to production from the first two Alma wells. The EnQuest Producer FPSO vessel performed well in 2015 and the first cargo offload was completed in December 2015.

Kraken

During 2015, the Kraken project again progressed well. The development project proceeded on schedule, and by the end of the year capex costs for the overall project had been reduced by c.10%, bringing the expected gross capex down to c.$2.9 billion.

The fixed pipelines for the first two Kraken drill centres were installed on the seabed in H1 2015. Installation of the mooring system for the FPSO was started. Following manufacture, the submerged turret/buoy was transported to the field and successfully installed. Drill centre one ('DC1') was fully connected to the turret/buoy, at the year end only one production riser was still to be connected from the second drill centre.

In H2 2015, following the completion of the Kraken batch top-hole drilling programme at DC1, the drilling rig progressed with the pre-drilling of individual wells into the reservoir. This element of the project was ahead of schedule in 2015, contributing to the reduction in overall project capex. Reservoir analysis of the two full well penetrations to the end of 2015 correlated closely with the previous subsurface prognosis.

The conversion programme for the Kraken FPSO vessel continued on plan, with the vessel on track for delivery in 2016.

Scolty/Crathes

The Scolty/Crathes development received regulatory approval and was sanctioned by EnQuest in H2 2015. EnQuest is the operator of the development, with a 50% working interest. The project benefits from limited cash capital expenditure until first oil in 2017 and extends field life for the GKA field. Including this field life extension, unit capital costs for the project are under $20/bbl. Unit operating cost should be under $15/bbl in the initial peak volume years.

The fields will be tied back to the Kittiwake platform, in the Greater Kittiwake Area. The potential for such a tie back was part of the rationale for the acquisition of GKA. Production from the Scolty/Crathes fields is expected to continue until 2025; this also extends the life of the GKA hub itself to 2025. Development well drilling is anticipated by mid-2016, with first oil from Scolty/Crathes expected by the first half of 2017.

The cost of the tie back and the work required on the topsides of the Kittiwake platform have been agreed on a fixed lump sum turnkey basis and will become payable after a first oil determined date.

Malaysia

In 2015, EnQuest's Malaysian operations continued to increase in both significance and importance, representing 25% of production. PM8/Seligi increased production from 3,459 Boepd in 2014 (six months of production averaged over the full year), to 8,689 Boepd in 2015, with well intervention activities resulting in a gross production increase of approximately 3,000 Boepd in Q4 2015. First oil was achieved from Tanjong Baram in June 2015, the field was then briefly shutdown for changes requested by the host platform to accommodate volumes of liquids in gas. The changes were engineered and implemented extremely quickly, enabling rapid restart to production. This type of performance typifies EnQuest's agile operational capability.

Production from PM8/Seligi had already covered most of the consideration costs of the acquisition before completion and the team's operational performance since then has been excellent.

Investment prioritisation and asset disposals

As part of its investment prioritisation programme, EnQuest disposed of its Norwegian North Sea interests in 2015. EnQuest also ceased to have interests in Egypt and Tunisia and sold its exploration assets in Malaysia. In the UK, it has relinquished interests in a number of licences since the oil price decline. By the end of 2015, EnQuest had interests in 30 UK production licences, down from 35 before oil prices started to decline steeply in H2 2014.

Financial performance

In 2015, EnQuest generated EBITDA of $464.8 million compared with $581.0 million in 2014, lower as a result of the lower oil prices, as mitigated by hedging income of $261.2 million and also by the significant action taken on costs.

Cost reduction measures led to EnQuest's average unit production and transportation cost being reduced by $12.4 per barrel, or by 29.5% over 2014.

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. At 31 December 2015, EnQuest had cash and undrawn facilities totalling $496.0 million.

Exceptional items include non-cash post-tax impairments of $626.2 million, due to lower near term oil price assumptions.

2016 year to date

EnQuest has performed well at the start of 2016. At Alma/Galia, six wells have now been commissioned and are all expected to be onstream by early Q2 2016.

With effect from 1 January 2016, EnQuest acquired an additional 10.5% interest in the Kraken development, from First Oil plc, bringing EnQuest's total interest to 70.5%. This added approximately $90 million to EnQuest's net Kraken capex to first production.

In addition to the c.$300 million Kraken capex saving announced in December 2015, an additional c.$125 million saving in Kraken's capex has been made, following optimisation of the drilling programme. A total of 23 wells will now be drilled from three drill centres, instead of 25 wells from four drill centres. The overall full cycle project costs have now been reduced by c.$425 million from $3.2 billion at sanction, a reduction of c.13%.

Outlook for the rest of 2016 and beyond

EnQuest is intent on delivering on execution, with safety as the first priority. EnQuest remains extremely focused on operational efficiency and on further reducing both operating and capital costs.

Total EnQuest production for 2016 continues to be expected to average between 44,000 Boepd and 48,000 Boepd, a 26% increase over 2014 at the mid-point of the range. 2016 hedging remains in place, with 10 million barrels hedged at an average of $68 per barrel.

Action is continuing on all cost fronts, including production operations and services, fuel costs, logistics, maintenance, subsea, manpower, and SVT capital programme reductions. Further recent progress on these and other operating cost areas has enabled EnQuest to improve unit operating targets, to between $25-27/bbl for 2016. The business continues to target additional improvements in 2016, seeking low $20s unit opex from the North Sea business and mid-teens from Malaysia; the latter would effectively enable that business to fund its growth from its own cash flow.

2016 priorities include delivering the investment programme on time and on budget. Total EnQuest 2016 cash capex has been reduced again, now at the low end of the previous $700 million to $750 million range, despite including additional capex associated with the 10.5% increase in EnQuest's Kraken working interest. The predominant focus areas are the next phases of the Kraken development, with the FPSO being a critical path element. This has been reduced from an equivalent c.$950 million original capex budget, including the First Oil acquisition.

Smaller production and development companies require high efficiency and low cost capabilities, in particular in these market conditions. EnQuest has the requisite capabilities and with its operating costs rebased at materially lowered levels, even modest increases in oil prices would have a significant positive impact on future cash flows and growth. However, for the foreseeable future, EnQuest's priority is to continue delivering a business which is robust in a low oil price environment.

EnQuest values

Collaboration

Collaboration, to me, is to work together towards a common goal, to ensure we deliver and continually improve with the approach of 'one EnQuest' standard, in every area between all EnQuest teams. One of the reasons I enjoy working for EnQuest is because through the various roles I have completed, it has allowed me to collaborate with many other teams in the business and ensured we have delivered our personal and business goals together.

Craig Shepherd
Heather Alpha Offshore Installation Manager

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 and disposals.

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 to the extent practicable
- We seek to embed a risk culture within our organisation corresponding to the appetite for risk which is articulated for each of our principal risks
- 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

We seek to balance our risk position between investing in activities that may drive growth and the continuing need to remain a stable and viable company with the capacity to continue to grow as market opportunities present themselves. The Board will review the Company's risk appetite annually in light of changing market conditions and the Company's performance.

The Executive 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 sub-Committee of the Board has been established (the Risk Committee) to provide a forum for the Board to review selected individual risk areas in greater depth.

The Board, upon the advice of the Audit Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2015 to the date of this report, and is satisfied that they are effective and that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Key business risks

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

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk management system works effectively in assessing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group. 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) and an articulation of the Group's risk appetite for each of these principal risks.

Risk	Appetite	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 (2014 Medium) **Likelihood** – Low (2014 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 strives to provide a highly secure setting for its people and the natural environment and we endeavour to constantly improve our safety standards back to where we have shown we can deliver with zero recordable or high potential incidents. There is no reason for anyone associated with our business to take safety risks other than those normally associated with oil and gas operations and the Group has a low appetite for risks to HSE.	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 is now fully integrated across our operated sites and this has enabled an increased focus on Health, Safety and the Environment. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.

Risk	Appetite	Mitigation
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 (2014 High) **Likelihood** – Low (2014 Low) There has been no material change in the potential impact or likelihood.	Since production efficiency is core to our business and the Group seeks to maintain a high degree of operational control over production assets in its portfolio, EnQuest has a very low tolerance for operational risks to its production (or the support systems that underpin production).	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 and remedial and improvement opportunities are 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.
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 (2014 High) **Likelihood** – Low (2014 Medium) The likelihood of occurrence of an event impacting project execution has decreased as the Alma/Galia project has come into production and as the Kraken development project progresses. However, in light of the adverse market conditions impacting EnQuest and the oil and gas industry, the potential impact of a significant cost increase or delay to the Kraken project has increased in light of the greater materiality to EnQuest which the project now represents.	The efficient delivery of new developments is a key feature of the Group's long-term strategy. While the Group necessarily assumes significant risk when it sanctions a new development (for example, by incurring costs against oil price assumptions), it requires that risks to efficient implementation of the project are minimised.	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 remains scheduled for 2017. The development involves the drilling of 23 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.

Risks and uncertainties continued

Risk	Appetite	Mitigation
Project execution continued		With respect to the Kraken development, the FPSO is being provided by a third party on a lease basis to mitigate risk of cost overrun. As well as FPSO related engineering and management expertise in the Kraken project team in Aberdeen, there is also a dedicated EnQuest team at the FPSO construction yard in Singapore to ensure quality and mitigate risk of schedule overrun.
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 (2014 High) **Likelihood** – Medium (2014 Medium) The likelihood has increased as oil price volatility continues to limit business development activity. Low oil prices can potentially affect development of contingent and prospective resources and can also affect reserve certifications.	Reserves replacement is a key element of the Group's success. The Group has some tolerance for the assumption of risk in relation to the key activities required to deliver reserves growth, such as drilling and acquisitions.	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 liquidity and/or ability to comply with relevant covenants. **Potential impact** – High (2014 High) **Likelihood** – High (2014 Medium) Falling oil prices have continued to impact cash flow adversely. However, it is considered that the risk is being appropriately mitigated and remains controlled. Further information is contained in the going concern and viability paragraphs on pages 44 and 45 of the Financial Review.	The Group recognises that significant leverage has been required to fund its growth. It is however intent on maintaining liquidity and complying with its obligations to finance providers, recognising that reasonable assumptions relating to external risks need to be made in transacting with finance providers.	During the year, the Group renegotiated certain financial covenants under its revolving credit facility and under its £155 million retail bond 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) and disposed of its Aberdeen office developments. Ongoing compliance with the financial covenants under all of the Group's lending arrangements (including the $650 million High Yield Bonds) is actively monitored and reviewed. Funding from the bonds and revolving credit facility is supplemented by operating cash inflow from the Group's producing assets. The Group reviews its cash flow requirements on an ongoing basis to ensure it has adequate resources for its needs. The Group is 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. The Group also maintains a framework of internal controls.

Risk	Appetite	Mitigation
Human resources The Group's success is dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. Industrial action across the sector could also impact on the operations of the Group. **Potential impact** – Low (2014 Low) **Likelihood** – Medium (2014 Low) The impact has remained static due to low oil prices impacting the buoyancy of the employment market. The likelihood has increased due to the erosion in value of long-term share based incentive plans.	As a low cost, lean organisation, the Group relies on motivated and high quality employees to achieve its targets and manage its risks. The Group recognises that the benefits of a lean and flexible organisation require agility to assure against the risk of skills shortages.	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.
Reputation The reputational and commercial exposures to a major offshore incident are significant. **Potential impact** – High (2014 High) **Likelihood** – Low (2014 Low) There has been no material change in the potential impact or likelihood.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence.	Operational activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors. The Group requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements. The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.
Oil price A material decline in oil and gas prices adversely affects the Group's operations and financial condition. **Potential impact** – High (2014 High) **Likelihood** – High (2014 High) The potential impact and likelihood remains high due to low and volatile oil prices.	The Group recognises that considerable exposure to this risk is inherent to its value proposition.	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 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.

Risks and uncertainties continued

Risk	Appetite	Mitigation
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 (2014 High) **Likelihood** – Low (2014 Medium) The likelihood has reduced as it appears unlikely that the UK government will unexpectedly burden the industry in the current low oil price environment.	The Group faces an uncertain macro-economic and regulatory environment. Due to the nature of such risks and their relative unpredictability, it must be tolerant of certain inherent exposure.	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 (2014 Medium) **Likelihood** – Medium (2014 Medium) There has been no material change in the potential impact or likelihood.	The Group requires partners of high integrity. It recognises that it must accept a degree of exposure to the creditworthiness of partners and evaluates this aspect carefully as part of every investment decision.	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.
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 (2014 Medium) **Likelihood** – Medium (2014 Medium) There has been no material change in the impact or likelihood.	The Group operates in a mature industry with well-established competitors and aims to be the leading operator in the sector; it thus has a high appetite for this risk.	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.

Risk	Appetite	Mitigation
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 (2014 Medium) **Likelihood** – Medium (2014 Low)	Although the extent of portfolio concentration has reduced (as the business has developed), the majority of the Group's assets remain relatively concentrated and therefore this risk is still intrinsic to the Group.	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. 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 (2014 Medium) **Likelihood** – Low (2014 Medium) The likelihood of the overall risk has reduced due to EnQuest exiting Egypt and Tunisia. In addition, oil price uncertainty has increased the potential impact and likelihood of a slowdown in international growth plans.	In light of its long-term growth strategy, the Group seeks to expand and diversify its production (geographically and in terms of quantum); as such it is tolerant of assuming certain commercial risks which may accompany the opportunities it pursues. However such tolerance does not impair the Group's commitment to comply with legislative and regulatory requirements in the jurisdictions in which it operates.	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

North Sea operations

"By acting early and working proactively with the supply chain, EnQuest lowered unit costs significantly."

Neil McCulloch
President, North Sea

Successfully addressing EnQuest's strategic priorities in a low oil price environment

- Delivering on execution
- Streamlining operations
- Strengthening the balance sheet through good operations

Overview

As a focused and agile company, EnQuest commenced work on streamlining operations well before the oil price started to decline in Q4 2014. As a result, additional benefits were realised early in 2015. By acting early and working proactively with the supply chain, EnQuest lowered unit costs significantly, without impacting safety or production efficiency, for which EnQuest has had a strong track record since its inception. With the EnQuest Producer onstream in October 2015, EnQuest delivered full year 2015 production above guidance levels, having achieved its strongest production performance yet. As well as maintaining high levels of Production Efficiency ('PE'). EnQuest's 2015 drilling programme was upper quartile, measured against the industry standard 'Rushmore' benchmark.

2015 was a busy and successful year on Thistle, it saw further benefits from the field life extension programme. The drilling programme on Heather was completed in 2015, following which the drill crew returned to drill on Thistle. Initially, the Thistle programme was sanctioned with three activities but the maturation of subsurface targets, coupled with high drilling efficiency, enabled the completion of additional previously unscheduled activities. The programme was delivered approximately 25% below budget, benefitting from the power upgrades completed in the life extension project, careful engineering and rigorous performance management of drilling operations. The Thistle development programme has been self funding. The production programme on the Northern Producer was well ahead of plan, despite scaling issues on the West Don field which impacted Q1 production. Heather also benefitted from the drilling activities performed in 2014, with an almost doubling of the field's production rate. The Heather team's focus and perseverance on costs saw significant progress in 2015. The Ythan development was delivered well ahead of schedule. In 2014, EnQuest took the licence, prepared the Field Development Plan ('FDP') and then had the well hooked up by Q2 2015. Performance of the Ythan development well has exceeded expectations.

On unit opex overall, EnQuest set a target of a 10% reduction for 2015. In the event, a reduction of over 15% in unit opex was delivered. In Q4 2015, unit costs in the North Sea were below $30/bbl and this comprehensive cost reduction programme is sustainable. EnQuest anticipates overall unit opex in 2016 to be $25-27/bbl and there will be a further reduction once Kraken is fully onstream. Unnecessary complexity is avoided with standardised approaches used whenever possible. Procurement has been offshored to Dubai and we continue our long standing tradition of working closely with the supply chain, constantly seeking innovative new ways to optimise cost efficiencies. EnQuest is incorporating a structurally lower unit operating cost into its base whilst maintaining high production efficiency. This now includes Kittiwake, the asset which had a running opex of more than $100/bbl when first taken over in March 2014 and which now operates at below $30/bbl.

Capital discipline is also paramount and, post Alma/Galia, other than Kraken, EnQuest's North Sea activities are focused on a much lower, more limited capex programme to activities which generate higher margins and achieve faster paybacks. Development costs continue to be brought down; for example, since the early concept selection work on the Scolty/Crathes project was completed, a 40% reduction in capex was achieved along with a low-risk execution strategy and the majority of facilities' capex is payable after first oil related dates.

In 2015, our HSE performance was very good. The continuous improvement programme has therefore been revised in 2016 to drive our performance higher. Our aim is always to achieve safe results and to have the right targets to help us achieve incident free operations.

North Sea operations: Thistle/Deveron

Highlights

Working interest at end 2015:
- 99%

Decommissioning liabilities:
- Original liabilities remain with former owner

Fixed steel platform

Daily average net production:
- 2015: 8,930 Boepd
- 2014: 9,025 Boepd

2015

Drilling recommenced at Thistle in 2015, with the A61/34 well which came onstream in May and which has been performing well. An additional production well A62/53 has been drilled and was placed on production in August. An Electric Submersible Pump ('ESP') workover on well A59/45 was completed successfully in August, with the well reinstated to production. Due to strong performance of the drilling programme, two wells anticipated in 2016 were brought forward into 2015. Well A64/40 was drilled in the crest of the Western Fault Block and was brought online in October. This was followed by completion of the Deveron A63/07 well with a dual ESP, which was brought online in November and the workover of the Deveron A58 well to upgrade the ESP. Excellent drilling performance has delivered considerable savings against budgeted costs.

2016 and beyond

This latest programme of Thistle drilling activities was brought to a close in January 2016. One of the power generation turbines has been overhauled in Q1 2016; maintenance, integrity and life extension projects will continue in the rest of 2016, including a routine planned two week shutdown in Q3.

North Sea operations: The Don fields

Highlights

Working interest at end 2015:
- Don Southwest, 60%
- Conrie, 60%
- West Don, 63.45%
- Ythan, 60%

Decommissioning liabilities:
- As per working interests

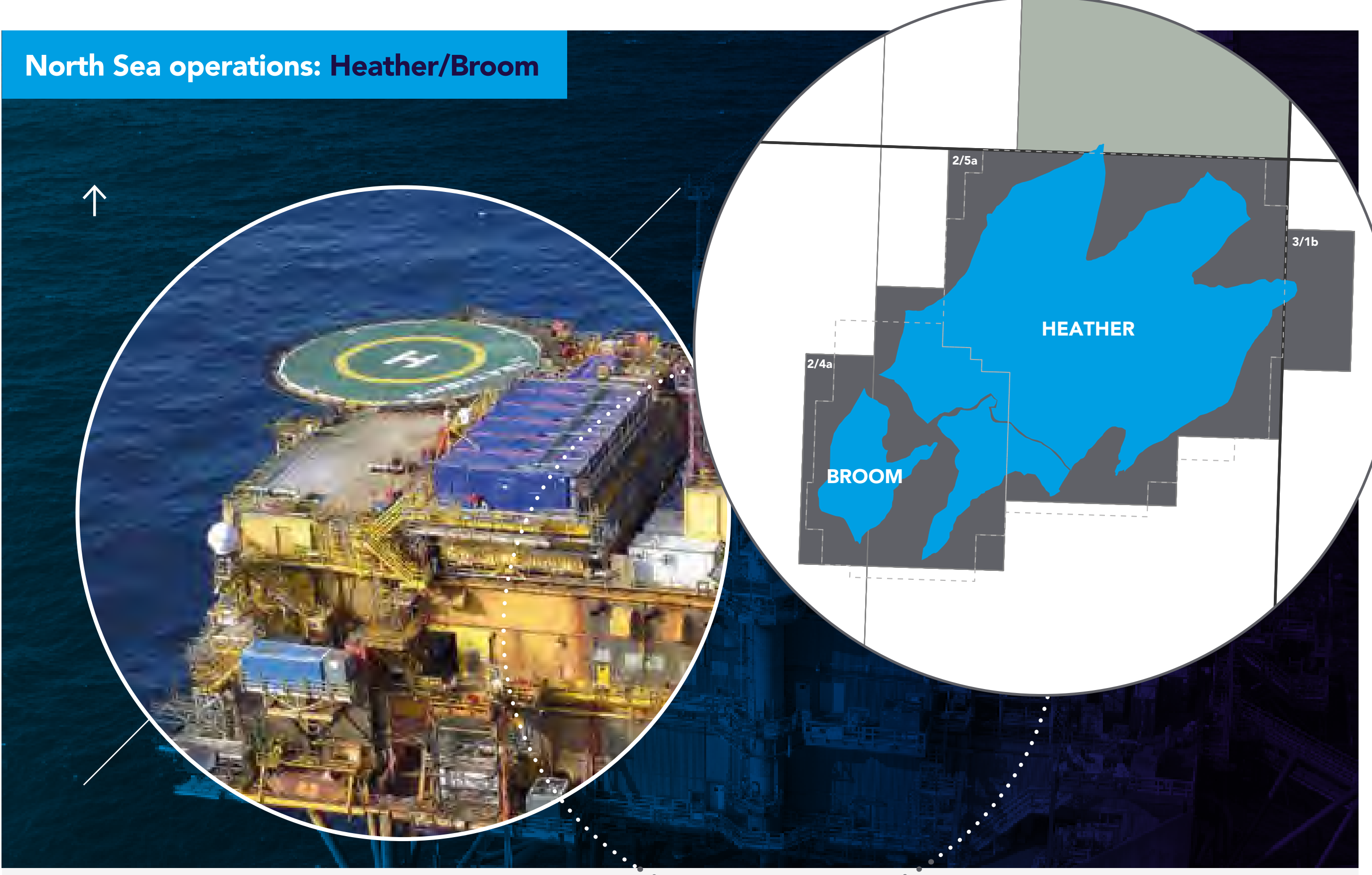
Floating production unit with subsea wells

Daily average net production:
- 2015: 7,690 Boepd
- 2014: 8,835 Boepd

2015
The new Ythan production well was completed in April and tied in and brought online in late May 2015 and continues to deliver oil rates above expectations. Production efficiency in the Don fields was again strong, with high levels of water injection efficiency also supporting production. 2015 production in the Dons area was down year on year due partly to the maintenance shutdown in June and to the operational shut-in of the W4 well in January and February due to scale build up.

2016 and beyond
The 2016 Dons work programme includes chemical treatment programmes and routine maintenance throughout the year, including a planned two week shutdown around the middle of the year.

North Sea operations: Heather/Broom



Highlights

Working interest at end 2015:
- Heather, 100%
- Broom, 63%

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

Fixed steel platform

Daily average net production:
- 2015: 4,643 Boepd
- 2014: 4,081 Boepd

2015
The Heather H66 production well was brought onstream in March and has performed well, contributing to the successful outcome of this phase of the development drilling campaign. The rig crew then moved to Thistle. Water injection was reinstated to the Broom field as planned in Q2 2015, following replacement of a flowline. Overall production in 2015 was ahead of 2014 reflecting the increase in Heather rate from 2014 drilling, offset by the water injection outage on Broom and the planned maintenance shutdown in June 2015. High levels of operational uptime have been achieved. Overall levels of water injection improved in 2015 and this increased production rates on both Heather and Broom.

2016 and beyond
There will be no drilling on Heather in 2016. Maintenance and integrity projects continue as normal, including pigging campaign this quarter.

North Sea operations: Greater Kittiwake Area ('GKA')

Highlights

Working interest at end 2015:
- Kittiwake, 50%
- Grouse, 50%
- Mallard, 50%
- Gadwall, 50%
- Goosander, 50%

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

Daily average net production:
- 2015: 3,981 Boepd
- 2014: 1,281 Boepd

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

2015

GKA

In 2015, GKA demonstrated continual improvement in production efficiency since acquisition, achieving almost 80% across the year, including the impact of a planned shutdown. The redundant Gadwall production well was successfully sidetracked to an updip location and was brought onstream in August with encouraging results. A successful chemical treatment has also been undertaken on Goosander raising production levels substantially from the field. The planned three week GKA maintenance shutdown was successfully completed in September. Reported 2015 production was over three times the level in 2014, with Gadwall having peaked at over 19,000 Boepd.

The success of GKA demonstrates the transferability of the EnQuest model and of its ability to create value from mature assets; the strategy was sound, the investment programme has been focused and the opex discipline has been strong.

The Scolty/Crathes development (to be tied back to GKA). 50% EnQuest working interest

The Scolty/Crathes Field Development Plan received regulatory approval in H2 2015 and was then sanctioned by EnQuest. EnQuest is the operator of the development with a 50% working interest. The project benefits from limited cash capital expenditure until first oil in 2017 and extends field life for the GKA field.

The development plan consists of single horizontal wells to be drilled in each of the Scolty and Crathes fields. The fields will be tied back to the Kittiwake platform, in the Greater Kittiwake Area. Production from the Scolty/Crathes fields is expected to continue until 2025, which also extends the life of the GKA hub itself to 2025. Development well drilling is anticipated by mid-2016, with first oil from Scolty/Crathes expected by the first half of 2017.

2016 and beyond

Subsea and topside scopes on the Scolty/Crathes development are progressing according to schedule. There will be no other drilling on GKA. A planned three week shutdown is scheduled for early in H2 2016.

North Sea operations: Alma/Galia

30/24b
30/24c
30/25c
GALIA
ALMA

Highlights

Working interest at end 2015:
In both fields, 65%

Decommissioning liabilities:
As per working interest

Floating, production storage and offloading unit with subsea wells

Daily average net production:
2015: 1,083 Boepd

Net production since first oil on 27 October 2015, averaged over the twelve months to the end of December 2015.

2015

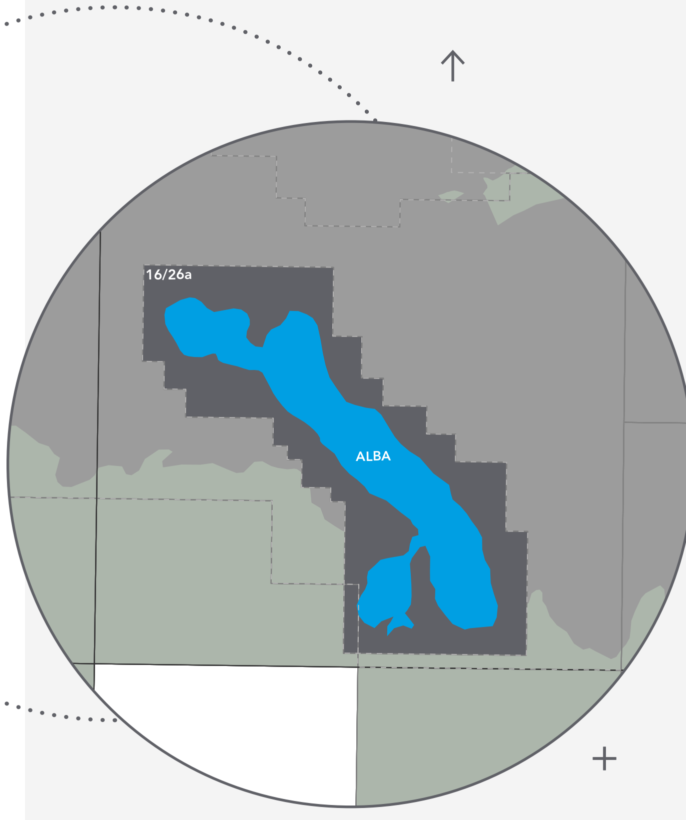
In H1 2015, the FPSO vessel left the yard in Newcastle, successfully completed marine performance trials and was towed out to the field, where it was securely moored. It was first made 'storm safe' and then all the remaining anchor chains were installed. All the risers were then pulled in and the ship was able to weathervane. The subsea equipment was successfully function tested from the vessel via the umbilicals. The Galia production well was also completed and tied into the production manifold.

First oil from the Alma/Galia development was achieved on 27 October 2015, following the safe delivery of final commissioning of all the required systems. Production from the first two Alma ESP wells (K3Z and K5) was increased in the second half of November as the Galia well was also brought onstream.

2016 and beyond

The FPSO has performed well since first oil and continues to do so. Excellent uptime has been achieved on the EnQuest Producer, with 77% in 2015 and over 90% in early 2016. The first cargo was successfully offloaded in December. A short production shutdown is required to prepare for transfer over to power generated from the steam turbine generators and to commission the remaining subsea scope. At Alma/Galia, all six wells have now been commissioned, alongside one water injector well. All six production wells are expected to be onstream by early Q2 2016. The permanent boiler and turbine power arrangements are also expected to be online in early Q2 2016.

North Sea operations: Alba (non-operated)



Highlights

Working interest at end 2015:
- 8%

Decommissioning liabilities:
As per working interest

Fixed steel platform

Daily average net production:
- 2015: 1,178 Boepd
- 2014: 1,214 Boepd

2015

Field production was broadly stable in 2015. The Alba oil field is operated by Chevron.

2016 and beyond

The ADW and S11 wells are both scheduled to be brought online later in 2016.

EnQuest's hydrocarbon assets

EnQuest's asset base as at 31 December 2015

Licence	Blocks	Working interest (%)	Name
UNITED KINGDOM			
Production & Development			
P073	21/12a	50	Goosander
P213[1]	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 & 21/19b	50	Grouse, Mallard, Gadwall
P242	2/5a	63 & 100	Broom & Heather
P351	21/18a	50	Kittiwake
P475	21/19s	99	Thistle
P902	2/4a	63	Broom
P1077[5]	9/2b	71	Kraken & Kraken North
P1200	211/13b	63	West Don
P1765 / P1825	30/24c & 25/c, 30/24b	65	Alma/Galia
P2137	211/18e & 19c	60	Ythan
P1107 / P1617	21/8a, 21/12c & 13a	50	Scolty/Crathes
Discoveries			
P220 / P250 / P585	15/12b, 17a & 17n	60	Kildrummy
P2006	21/6b	50	Avalon
Other licences			
P90	9/15a	33	
P1976	8/5 & 9/1b	60	
P1996[2]	28/2b & 28/3b	100	
P2005	22/11b	50	
P2143	3/1b	100	
P2148	9/2c	60	
P2173	20/15, 21/11 & 21/16	50	
P2176	21/8b	100	
P2177	21/14b, 19c & 20b	50	
P2201	211/13c & 211/18c	60	
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

Notes
1 Not operated.
2 The disposal of this licence was agreed at the end of 2015.
3 Official reference PM-8 Extension PSC.
4 Small Field Risk Service Contract. PETRONAS remains the asset owner.
5 With effect from 1 January 2016, EnQuest increased its working interest in Kraken from 60% to 70.5%.

EnQuest Oil & Gas Reserves and Resources at 31 December 2015

	UKCS		Other Regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1, 2, 3 & 6)					
At 1 January 2015		205		15	220
Revisions of previous estimates		(10)		3	(7)
Acquisitions and disposals (note 7)		2			2
Production:					
Export meter	(10)		(3)		
Volume adjustments (note 5)			1		
Production during period:		(10)		(2)	(12)
Total at 31 December 2015 (note 8)		**187**		**16**	**203**
Contingent Resources (notes 1,2 and 4)					
At 1 January 2015		118		52	171
Revisions of previous estimates		(7)			(7)
Disposals (note 7)		(18)			(18)
Total Contingent Resources at 31 December 2015		**94**		**52**	**146**

Notes
1 Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis.
2 Proven and probable reserves and contingent resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data.
3 The Group's proven and probable reserves have been audited by a recognised Competent Person in accordance with the definitions set out under the 2007 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers.
4 Contingent resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis.
5 Adjustment for export to sales volumes.
6 All UKCS volumes are presented pre SVT value adjustment.
7 Equity in Scolty and Crathes increased to 50%. Contingent Resources: Relinquished Cairngorm, exited SW Heather, reduced equity in Crawford and Porter.
8 The above proven and probable reserves include 6.8 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs.
9 The above table excludes Tanjong Baram in Malaysia.

EnQuest Oil and Gas Reserves as at 1 January 2016

	UKCS	Other Regions	Total
	MMboe	MMboe	MMboe
Proven and Probable Reserves (note 1)			
At 31 December 2015	187	16	203
Acquisitions and disposals (note 2)	13		13
Total as at 1 January 2016 (notes 2 and 3)	**200**	**16**	**216**

Notes
1 Notes 1, 2, 3 and 6 from the main resources table also apply to the reserves reported here.
2 Equity in Kraken increased to 70.5% economically effective as of 1 January 2016.
3 The above proven and probable reserves include 7.5 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs.

EnQuest values

Creativity

At EnQuest, creativity is key to finding innovative solutions to everyday problems. Within the subsurface team we work collaboratively to maximise the potential of our assets and to identify undeveloped opportunities close to our existing hubs. As the North Sea basin matures further, this becomes an ever increasing challenge, especially within the current oil price environment. This situation has forced us to become more creative and to break out of established patterns and ways of thinking.

Claire Taylor
Licence Co-ordinator
& Alma/Galia Geologist

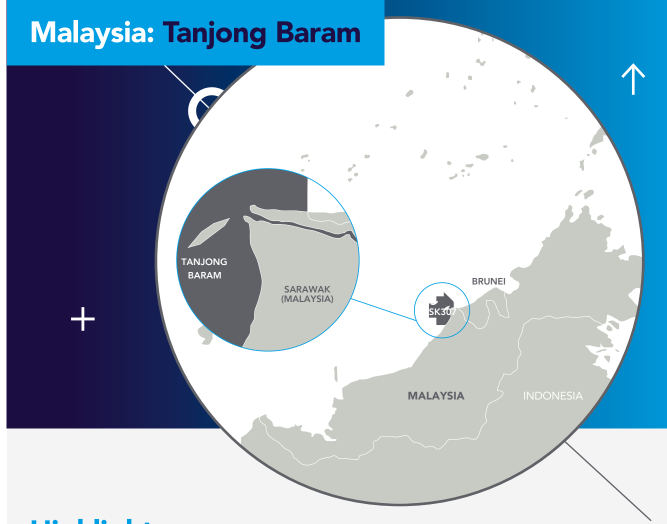
Operating review: International

Malaysian operations

"Already 25% of production, demonstrating the exportability of the EnQuest model."

Bob Davenport
General Manager, Malaysia

Malaysia: Tanjong Baram



Highlights

Working interest at end 2015:

- 70%

Decommissioning liabilities:

- None

Daily average net production:

- 2015: 373 Boepd (working interest): 261 Boepd (entitlement)

2015 data reflects net production from first production in June 2015 averaged over the twelve months to end December 2015.

2015

Tanjong Baram was developed as an unmanned platform with production from two wells tied back to the PETRONAS Carigali operated West Lutong A complex.

First production from the Tanjong Baram field was achieved on schedule in June 2015. The host platform requested changes to the receiving vessel to accommodate the volumes of liquids in the associated gas. This required the field to be shut in while the work was completed. Tanjong Baram was successfully restarted on 18 August and the field was producing close to 3,000 Boepd gross by year end.

2016 and beyond

Tanjong Baram experienced two unplanned shutdowns in January due to weather. Average overall oil production has nonetheless continued at stable levels. Co-ordination with the host platform operator is continuing in order to optimise daily production rates and minimise operating costs.

Malaysia: PM8/Seligi

Highlights

Working interest at end 2015:

- 50%

Decommissioning liabilities:

- PM8, 50%
- Seligi, 50% of partial liability allocated based on ratio of remaining oil reserves and to estimated ultimate recovery. In addition to the main production platform and separate gas compression platform, there are 11 minimum facility satellite platforms tied back to the main platform.

Daily average net production:

- 2015: 8,689 Boepd (working interest): 5,958 Boepd (entitlement)
- 2014: 3,459 Boepd (working interest): 2,078 Boepd (entitlement)

2014 data reflects net production from June 2014 to December 2014, averaged over the full year.

Summary

EnQuest's 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. 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.

2015

EnQuest assumed offshore field operations in October 2014 and the overall transition was completed in December 2014. The PM8/Seligi asset has delivered strong production performance, well above target, due to improved production efficiency and to the successful idle well restoration activities completed since assuming operatorship. In 2015, EnQuest was able to deliver material improvements from 16 idle wells.

The 2015 PM8/Seligi field infrastructure work programme focused on inspections to establish pipeline, vessel and structural integrity baselines and on overhauls and repairs to gas compression trains. As a result, compressor availability was improved from 70% to 95% and overall production efficiency was increased from c.80% to over 90%, delivering an immediate boost to production. In addition, well intervention activities were completed to restore idle wells and optimise existing wells, leading to a production gain of approximately 3,000 gross Boepd in Q4.

2016 and beyond

EnQuest will continue to enhance production by investing in well intervention work, activities to improve facility reliability and production efficiency, and facilities improvement upgrades. At the same time, ongoing technical studies will support future drilling, well workover, gas injection and water injection projects to further enhance production and ultimate recovery.

The overall impact of the north east monsoon season has been low compared to last year, and 2016 production has started strongly, following a successful well intervention on Seligi A.

Operating review

Major projects

"The Kraken project is progressing well, on schedule and under budget."

Richard Hall
Head of Major Projects

Overview

During 2015, the Kraken project again progressed well. The development project proceeded on schedule, and by the end of the year capex costs for the overall full cycle project had been reduced by over 10%, bringing the expected gross capex down to c.$2.9 billion. A further c.$125 million reduction in project capex has since been made. The Kraken FPSO vessel continues to be on track for 'sail-away' in 2016.

The successful installation of the integrated turret/buoy mooring system was an important part of the 2015 programme. All the risers and mooring lines are now connected to this turret/buoy, which will itself be connected to the FPSO when it arrives in the field. This avoids the need for the individual risers to be connected one by one into the FPSO, and significantly reduces the weather window to connect the wells, down to only forty eight hours of suitably calm seas.

From the start of the project, the Kraken development has applied an approach of using standardised equipment where possible. Suppliers were asked to provide and install their standard units and EnQuest tailored the design of its field to those standard facilities. EnQuest does not commission bespoke designs or engineering where standardised approaches already provide good solutions.

The initial c.10% capex cost reduction on the project was challenging to achieve, due in particular to the lump sum fixed price contractual nature of most of the supplier arrangements. The saving derives partly from the efficiencies of the drilling programme, but also generally as a result of rigorous project management of all aspects of the project, with excellent planning and project execution. Change procedures in particular are strictly managed. An interventionist approach is taken with all subcontractors, with whom EnQuest is actively involved to ensure commitments are delivered.

EnQuest values

Agility

Some would associate finance with routine and repetition; however, I find working at EnQuest that no two days are the same. For me, agility is about thinking on your feet, being able to turn your hand to something new, understand it, deal with it effectively and move on. This supports 'The EnQuest way' and very much feels like part of daily routine. The exposure gained across such a wide variety of functions and levels within the organisation is great.

Robert Forbes
Asset Accounting Team Lead

Major projects: Kraken

9/2b
KRAKEN NORTH
KRAKEN
ARMADA KRAKEN

Highlights

- **Working interest at end 2015:**
  - 60%. Increased to 70.5% at the start of 2016
- **Decommissioning liabilities:**
  - As per working interest
- **Floating Production Storage and Offloading unit with subsea wells**
- **First oil expected 2017**

2015

Kraken

The fixed pipelines for the first two Kraken drill centres were installed on the seabed in H1 2015. Installation of the mooring system for the FPSO was started, also in the first half. Following manufacture, the submerged turret/buoy was transported to the field and successfully installed. Drill centre one ('DC1') was fully connected to the turret/buoy, with only one production riser still to be connected from the second drill centre.

The conversion programme for the Kraken FPSO vessel continued on plan. Equipment procurement and fabrication of the modules was ongoing.

In H2 2015, following the completion of the Kraken batch top-hole drilling programme at DC1, the drilling rig progressed with the pre-drilling of individual wells into the reservoir. Reservoir analysis of the two full well penetrations to the end of 2015 correlated very closely with the previous subsurface prognosis. Procurement, manufacture and installation continued in relation to the next phases of wells, subsea infrastructure and the FPSO.

2016 and beyond

In 2016, the drilling programme is focused on drill centres one and two. It continues to be ahead of schedule, despite a particularly harsh North Sea winter; this should ensure that as planned there will be eight wells available for first oil, four production wells and four injection wells.

Following the departure of the FPSO from dry dock, in December 2015, work is continuing on the marine systems and the modules which will be lifted onto the vessel in the first half of 2016. The FPSO remains on schedule to leave Singapore in 2016 for commissioning and 'hook-up', with production in H1 2017. Preparation on Kraken readiness to transition from development to operations is well underway.

Kraken's capex has been reduced by an additional c.$125 million, following a revision to the development plan. A total of 23 wells will now be drilled from three drill centres, instead of 25 wells from four drill centres. The overall full cycle project costs have now been reduced by c.$425 million from $3.2 billion at sanction, a reduction of c.13%.

With effect from 1 January 2016, EnQuest acquired an additional 10.5% interest in the Kraken development, from First Oil plc, bringing EnQuest's total interest to 70.5%.

Financial review

"EnQuest has delivered a robust operational performance."

Jonathan Swinney
Chief Financial Officer

Financial overview

Against a backdrop of the lowest crude oil prices since 2002, with the price of oil averaging $52.4/bbl throughout 2015 versus $98.9/bbl through 2014, EnQuest has delivered a robust operational performance. Production, on a working interest basis, increased by 31% to 36,567 Boepd. This included a full year of production from PM8/Seligi, which contributed 8,689 Boepd compared to 3,459 Boepd in 2014 and 1,084 Boepd from Alma/Galia, with first oil achieved in October 2015. Reflecting EnQuest's cost optimisation, first oil from Alma/Galia and the increase in production, unit operating costs reduced by 29% to $29.7/bbl.

	Business performance	
	2015 $ million	2014 $ million
Profit from operations before tax and finance income/(costs)	**173.9**	362.5
Depletion and depreciation	**305.9**	245.1
Intangible impairments and write-offs	**–**	0.6
Net foreign exchange (gains)/losses	**(15.0)**	(27.2)
EBITDA	**464.8**	581.0

EBITDA for the year ended 31 December 2015 was $464.8 million compared with $581.0 million in 2014. The lower EBITDA is mainly due to lower oil prices in H2 2015, which were partially mitigated through the contribution of $261.2 million of EBITDA from the Group's commodity hedge portfolio.

Reflecting the ongoing investments EnQuest has made in its assets, notably Kraken, EnQuest's net debt has increased from $967.0 million at the end of 2014 to $1.55 billion as at 31 December 2015.

	Net debt/(cash)	
	2015 $ million	2014 $ million
Bond[1]	**879.7**	892.0
Multi-currency revolving credit facility[1]	**902.3**	217.6
Tanjong Baram project finance facility[1]	**35.0**	–
Property loan[1]	**–**	34.2
Cash and cash equivalents	**(269.0)**	(176.8)
	1,548.0	967.0

1 Stated excluding accrued interest and excluding the net-off of unamortised fees.

There are no significant debt maturities until October 2017. As at 31 December 2015, cash and undrawn facilities totalled $496.0 million.

As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately $2.54 billion. In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities. The Group paid cash corporate income tax on assets acquired in Malaysia which will continue throughout the life of the Production Sharing Contract (PSC).

The substantial decline in the oil price has led to $626.2 million of post-tax impairments to tangible oil and gas assets, and the de-recognition of $478.1 million of tax losses. This impairment is made up of Thistle/Deveron $104.7 million, Heather and Broom $60.4 million, the Dons hub $96.2 million, Alba $12.3 million, Alma/Galia $344.8 million and Tanjong Baram $7.8 million.

Income Statement

Production and revenue

Production levels, on a working interest basis, for the year ended 31 December 2015 averaged 36,567 Boepd compared with 27,895 Boepd in 2014. The increase reflects a full year of production from PM8/Seligi, additional production from Gadwall and Goosander in

the Greater Kittiwake Area (GKA), production from the Alma/Galia development which was brought onstream in late October and initial production from Tanjong Baram. 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 excluding hedging was $50.9 for the year ended 31 December 2015, significantly below the $100.6 per barrel received for 2014, reflecting the steep decline in the oil price in 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2015 crude oil sales totalled $634.3 million compared with $970.5 million in 2014. The decrease in revenue was due to the lower oil price offset partially by the higher production. Revenue in 2015 also included $261.2 million of realised income relating to oil commodity hedges, and other oil derivatives. This includes $119.1 million of hedge accounting gains deferred from 2014 and $111.6 million of non-cash amortisation of option premium.

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) was as follows:

	Reported year ended 31 December 2015 $ million	Reported year ended 31 December 2014 $ million
Cost of sales	**733.4**	654.1
	$	$
Unit operating cost, adjusted for over/underlift and inventory movements (per barrel):		
– Production costs	**23.4**	31.5
– Tariff and transportation costs	**6.3**	10.6
– Operating costs	**29.7**	42.1
– Depletion of oil and gas properties	**25.0**	24.6
	54.7	66.7

Cost of sales pre-exceptionals and depletion of fair value adjustments was $733.4 million for the year ended 31 December 2015 compared with $654.1 million in 2014. Lifting costs and tariffs decreased by $67.2 million reflecting EnQuest's cost reductions and a lower percentage of throughput at the Sullom Voe Terminal (SVT). This was offset by an increase in the DD&A charge of $61.2 million driven by increased production on PM8/Seligi, GKA and first production from Alma/Galia. Other operating costs, which principally includes the supplemental payment due on profit oil in Malaysia increased by $11.1 million, reflecting a full year of PM8 production, and higher profit oil entitlement. Overlift and inventory movement increased by $15.8 million. Additionally, 2014 had benefitted from a gain of $46.7 million relating to the bond proceeds currency transactions.

The Group's operating costs, which are included in the calculation of the unit operating costs, comprise production costs, tariff and transportation costs, and the effect of any realised foreign exchange hedging gains or losses. Operating costs for the year ended 31 December 2015 totalled $390.7 million compared with $399.4 million in 2014 (on a pre-exceptional basis). Production costs of $318.5 million were $28.7 million lower than 2014. This was driven by the Group's ongoing cost optimisation activities, partially offset by a full year of PM8. Transportation costs decreased from $107.5 million to $69.1 million for the year ended 31 December 2015. This reduction is primarily driven by lower SVT costs in 2015. These reductions were offset by a negative movement of $58.4 million in hedging, most of which is attributable to the gain realised in 2014 in respect of the bond proceeds currency swap.

Due to the above factors, the Group's average unit production and transportation cost has decreased by $12.4 per barrel.

The Group's depletion expense per barrel for the year increased slightly due to the impact of depletion on Alma/Galia which has a higher depletion rate than the rest of the Group's hubs.

Exploration and evaluation expenses

Exploration and evaluation expenses were $0.3 million in the year relating to pre-licence costs expensed.

General and administrative expenses

General and administrative expenses were $14.4 million in the year ended 31 December 2015 compared with $16.5 million reported in the previous year. The decrease reflects reduced personnel costs in 2015.

Other income and expenses

Other income of $15.4 million is comprised mainly of net foreign exchange gains of $15.0 million in the year ended 31 December 2015 relating to foreign currency forwards and trades, as well as foreign exchange gains on other working capital.

Taxation

The tax credit for the year of $129.3 million (2014: $105.8 million tax charge), excluding exceptional items, is due primarily to an increase in the Ring Fence Expenditure Supplement on UK activities.

Exceptional items and depletion of fair value uplift

Exceptional losses totalling $1,339.4 million before tax ($887.3 million on a post-tax basis) have been disclosed separately in the year ended 31 December 2015. This primarily relates to a post-tax impairment of tangible oil and gas assets of $626.2 million caused by the continued decline in the oil price throughout 2015.

Exceptional items also include an impairment of $1.9 million to capitalised exploration costs in respect of licence areas where development of the area is unlikely to take place in current market conditions.

The material items which make up the remaining balance are the unrealised mark to market losses on derivative contracts of $45.6 million, $3.8 million of depletion on the fair value uplift on acquisitions, $26.6 million which includes $3.7 million relating to the unavoidable costs in relation to the sub-let space of the Aberdeen building and $22.9 million of which relates to providing for the

EnQuest values

Focus

I really enjoy working for EnQuest because it is such a dynamic organisation and there is always lots going on. The dynamic nature of the business means that focus is a key value – it's vital that focus is given to the right activities at the right time in order to meet individual and corporate objectives.

Robert Morgan
Oil Trader

Financial review continued

unutilised days for the Stena Spey drilling vessel activity in 2016, the vessel will not be fully utilised during this period. There was also an $8.5 million loss on the disposal of Annan House, $7.2 million relating mainly to the write-off of costs for relinquished licences for Cairngorm, Norway and Elke and $13.6 million relating to the write-down of the carrying value of Xmas trees in inventory. Finally, a $4.4 million loss was incurred relating to the difference between the receivable from PA Resources in Tunisia as at 31 December 2014 and the actual settled amount.

The tax impact of the above exceptional items is a tax credit of $634.4 million. A one-off deferred tax credit of $56.8 million in respect of the enacted decrease in the supplementary charge on UK oil and gas production to 20%, with effect from 1 January 2015, and decrease in the Petroleum Revenue Tax (PRT) rate to 35%, with effect from 1 January 2016, has been reported as an exceptional item in the period. The de-recognition of tax losses resulted in a deferred tax charge of $239.1 million.

Finance costs

Finance costs of $176.4 million include $80.2 million of bond and loan interest payable, $17.0 million unwinding of discount on decommissioning provisions, $70.0 million relating to the amortisation of premium on options designated as hedges of production and $5.0 million relating to the unwinding of the KUFPEC cost recovery provision. Other financial expenses of $11.0 million are primarily commitment and letter of credit fees and amortisation of finance fees of $7.3 million relates to arrangement fees for the bank facilities and bonds. The Group capitalised interest of $14.4 million for the year ended 31 December 2015 is in relation to the interest payable on borrowing costs on its capital development projects.

Finance income

Finance income of $1.0 million includes $0.3 million of bank interest receivable and $0.5 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 (98.0) cents for the year ended 31 December 2015 compared with (22.8) cents in 2014. The decrease of 75.2 cents was attributable to a lower gross profit, higher finance fees and offset by a lower effective income tax for 2015. The Group's reported diluted earnings per share excluding exceptional items was 16.5 cents for the year ended 31 December 2015 compared with 17.8 cents in 2014. The decrease of 1.3 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 2015 was $221.7 million compared with $632.2 million in 2014, reflecting principally the significant reduction in the oil price. The reported cash flow from operations was 28.6 cents per share compared with 81.6 cents per share in 2014.

During the year ended 31 December 2015, $2.9 million was received in relation to an exploration refund for EnQuest Norge AS's activities in Norway. In addition, $3.5 million was received in relation to EnQuest Group's UK tax liabilities for non-operational activities and PRT. $7.7 million was paid in relation to the Group's operations in Malaysia.

It is anticipated that the underlying effective tax rate for 2016 will be below the UK statutory tax rate of 50%, excluding one-off exceptional tax items, due to UK tax reliefs and profits charged to tax at a lower rate in Malaysia. 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. This is due to the benefits from tax deductible first year capital allowances in the UK, available investment 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:

	2015 $ million	2014 $ million
North Sea capital expenditure	**677.4**	922.1
Malaysia capital expenditure	**90.2**	19.1
Exploration and evaluation capital expenditure	**19.6**	69.7
Other capital expenditure	**39.4**	49.5
Proceeds on disposal of Aberdeen new building	**(68.4)**	–
Other proceeds	**(7.1)**	(2.2)
	751.1	1,058.2

Significant projects were undertaken during the year, including:

- the Alma/Galia development including spend on the FPSO;
- the Kraken development;
- the Thistle life extension and drilling programme;
- the drilling of the Ythan JT well;
- the drilling of the Heather/Broom H66 side-track well; and
- the completion of the Tanjong Baram development in Malaysia.

Net debt at 31 December 2015 amounted to $1,548.0 million compared with net debt of $967.0 million in 2014.

In early 2015, the Group renegotiated financial covenants under its Revolving Credit Facility (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. Compliance with ongoing covenants continues to be a priority for the Group, and financial covenants have been complied with throughout the year.

Balance Sheet

The Group's total asset value has decreased by $481.9 million to $3,777.3 million at 31 December 2015 (2014: $4,259.2 million).

Property, plant and equipment

Property, Plant and Equipment (PP&E) has decreased to $2,436.7 million at 31 December 2015 from $3,279.7 million at 31 December 2014. The decrease of $843.0 million is mainly due to the oil and gas assets impairment of $1,224.5 million offset by additions of $826.5 million and an increase in PP&E of $45.6 million in relation to changes in estimates on the decommissioning provision. This is offset by the disposal of the new building in Aberdeen, reducing PP&E by $78.1 million and depletion and depreciation charges of $309.7 million.

The PP&E capital additions, including carry arrangements, during the year are set out in the table below:

	2015 $ million
Dons hub	40.2
Thistle hub	105.1
Heather and Broom hub	16.7
Alma/Galia	147.8
Kraken	355.9
GKA	18.0
Scolty/Crathes	22.7
PM8/Seligi	21.1
Tanjong Baram	60.4
Annan House – including fixtures and fittings	36.9
Other	1.7
	826.5

Intangible oil and gas assets
Intangible oil and gas assets decreased by $19.2 million to $46.5 million at 31 December 2015. The decrease mainly relates to an impairment of the Outwith Broom development costs, the disposal of the Norway licences, write-offs relating to the relinquishment of licences and the sale of the Elke licence. There was also $16.2 million of intangible assets reclassified to tangible assets, with Scolty/Crathes accounting for the majority of this balance. The remaining balance primarily relates to Kraken and the exploration of the Tyrone and Tiree areas and the Avalon development of which Summit is the operator.

Investments
The Group holds an investment of 8,045,198 new ordinary shares in Ascent Resources plc which is valued at $0.1 million based on the quoted bid price as at 31 December 2015.

Trade and other receivables
Trade and other receivables have increased by $65.7 million to $351.9 million at 31 December 2015 compared with $286.2 million in 2014. The increase is due to higher trade receivables as a result of December crude oil sales from the GKA and Alma/Galia fields, as well as an increase in joint venture debtors.

Cash and bank
The Group had $269.0 million of cash and cash equivalents at 31 December 2015 and $902.3 million was drawn down on the $1.2 billion RCF.

Provisions
The Group's decommissioning provision increased by $57.1 million to $506.8 million at 31 December 2015 (2014: $449.7 million). The increase is driven by the inclusion of a provision for Kraken to account for the subsea infrastructure that is now in place. Additionally, the Alma/Galia provision was increased to reflect the full cost of the estimate now that first oil has been achieved, and the estimates for Dons and GKA increased reflecting an increase in the estimate of the number of days to decommission a well.

The $80.0 million provision held at 31 December 2014 in respect of the Kraken reserves determination contingent carry has been released in full during the year ended 31 December 2015, with a corresponding credit booked in PP&E. The reduction of this provision reflects management's view that the reserves determination process, which is required to use the dated Brent forward curve, less an appropriate oil price discount, will result in no contingent carry. The reserves determination process which will ultimately determine whether any amount is payable, will commence in the 2nd quarter of 2016.

Income tax
The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2015, which remains unchanged from the prior year. The Group had PRT payable of nil at 31 December 2015 compared with a $4.4 million liability at 31 December 2014. The reduction in the liability is due to a significant reduction in PRT payable on income from Alba during 2015. The income tax asset at 31 December 2015 represents UK corporation tax receivable in relation to non-upstream activities.

Deferred tax
The Group's net deferred tax position has moved from a liability of $476.3 million at 31 December 2014, to an asset of $79.3 million at 31 December 2015. This movement is principally due to a $598.2 million reduction in the deferred tax liability following the impairment of the Group's oil and gas assets, a reduction in the deferred tax liability of $56.8 million due to the reduction in statutory tax rates which is offset by a $239.1 million de-recognition of deferred tax assets due to the uncertainty of recovery. Total UK tax losses carried forward at the year end amount to approximately $2,535.8 million.

Trade and other payables
Trade and other payables have increased to $543.5 million at 31 December 2015 from $429.1 million at 31 December 2014. This increase reflects both an increase in activity, principally related to Kraken, plus the impact of the milestone payments in relation to the Kraken and Scolty/Crathes developments.

Other financial liabilities
Other current financial liabilities have decreased by $92.3 million to $9.2 million. The decrease relates to the Kraken 'firm' carry which has expired in the year, amounting to $66.2 million as well as a reduction in the value of commodity contracts and forward foreign currency contracts of $26.1 million.

Other non-current financial liabilities have decreased by $16.0 million to $7.7 million. The balance forms 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 balance is the discounted carry.

Financial Risk Management

Oil price
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 to protect against volatility and to ensure the availability of cash flow for reinvestment in capital programmes that are driving business growth.

During 2014 the Company entered into commodity hedging contracts to hedge partially the exposure to fluctuations in the Brent oil price during 2015. The Group has actively managed this hedge portfolio during 2015, which has generated cash flows of $68.6 million and revenue of $264.0 million. Finance costs of $119.8 million have been recognised, representing the movement in the time value of put options which have been designated as effective hedges of production. The revenue recognised includes $119.1 million of gains realised in 2014 which were deferred until 2015 to match the timing of the underlying production the options were hedging. It also includes $123.6 million of non-cash gains in respect of the movement in the time value of options not designated as hedges.

At 31 December 2015, the Group's commodity derivative contracts includes bought put options over 8MMbbls, maturing throughout 2016 with an average strike price of $68/bbl and a positive fair value of $164.8 million (including deferred premiums owed by EnQuest of $53.5 million). The Group also has oil swap contracts to sell 2MMbbls at $66.64/bbl maturing throughout 2016 with a positive fair value of $49.7 million, and net sold call options which, based on the current forward curve, are not expected to result in any loss to the Group, and had a positive net fair value of $42.0 million (including deferred premiums owed to EnQuest of $44.4 million).

In addition to the realised gains and losses on these contracts, the Group's business performance results will be impacted by the amortisation of option premium over the life of these options. Amortisation of premium in respect of bought put options designated as effective hedges are recognised in finance costs, whilst the amortisation of all other option premium is recognised in revenue. Business performance results for 2015 include a charge

Financial review continued

in finance costs totalling $70.0 million in respect of bought put option premium amortisation, and revenue includes $111.6 million of sold option premium amortisation. The current hedging position will result in the realisation of a further $24.2 million of revenue and $35.7 million of finance costs throughout 2016.

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

For the year ended 31 December 2015, the Group's foreign currency hedging portfolio realised a loss of $3.2 million. Unrealised gains of $2.3 million were also recognised.

At the end of 2015, the Group had foreign exchange hedge contracts in place over £463.6 million with a protection rate of approximately $1.49/£, €13.0 million with a protection rate of approximately €1.12/£ and forward contracts over NOK74.6 million at a fixed rate of NOK7.84/£. These contracts had a negative net fair value of $9.2 million at 31 December 2015 and expire throughout 2016.

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.

EnQuest values

Respect

There are a number of definitions of respect, but the one I like is the concept of due regard. I always try to remember that many different beliefs exist and that to acknowledge those beliefs is the outward expression of my respect for an individual, a purpose and the EnQuest way.

Abraham Zen Mohamed
Seligi A Offshore Installation Manager – Offshore Malaysia

Going Concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate 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 2016 and 2017. Management also successfully renegotiated temporary relaxation of certain covenants within the Revolving Credit Facility and Retail Bond.

At year end, the Group had headroom of $235 million on its borrowing facilities (excluding cash at hand) and headroom on its related financial covenants which are the same 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 assumptions that the Group's major projects remain on track.

This going concern assessment is prepared on the basis that the Facility providers continue to provide access to funding for the duration of the period under review. The forecasts which underpin this assessment, use an oil price assumption of $30/bbl throughout 2016, and $40/bbl in the first quarter of 2017, indicate that the Company will be able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Furthermore, management is pursuing a number of options available to it to inject near-term liquidity, including asset sales and other funding options. The Directors therefore consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Viability assessment

The Directors have assessed the viability of the Group over a three-year period to March 2019. This assessment has taken into account the Group's financial position as at March 2016, the future projections and the principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties and the actions management are taking to mitigate these risks are outlined on pages 22 to 27.

The period of three years is deemed appropriate as it provides a sufficient time horizon to assess the performance of the Kraken project and covers the period within which the Group's Revolving Credit Facility will be due to be partly repaid or refinanced. This viability assessment is prepared on the basis that the facility providers continue to provide access to sufficient funding for the duration of the three year period under review. The forecasts which underpin this assessment uses the same oil price assumption as the going concern with a longer term price assumption for the viability statement being aligned to the current forward curve.

The Group's projections reflect significant steps already underway to reduce operating and capital expenditure in light of the prevailing lower oil prices.

The Directors are pursuing a number of further mitigations to improve medium term liquidity. These options include but are not limited to:

- a sale and leaseback of the EnQuest Producer. EnQuest is in reasonably advanced discussions with a counterparty;
- a number of asset sale scenarios are being pursued; and
- other funding options.

The Directors will continue to work closely with the facility providers to keep them updated on progress on the above. The Group will seek to modify or temporarily waive the existing covenants and loan amortisation as appropriate. The RCF lenders continue to be supportive and have provided waivers to date. There is also regular dialogue with RCF lenders to ensure they remain informed on progress on the key projects and operations and the projections underpinning the liquidity position.

Based on these initiatives and Group's projections, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019.

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

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

- **Oil price volatility**
  To mitigate oil price volatility the Directors hedged 10 million barrels of 2016 production at an average price of $68 per barrel. As further mitigation the Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

- **Project execution**
  The Group has planned capital expenditure of approximately $1.6 billion during the three-year period covered by the viability assessment. This expenditure principally relates to the remaining capital expenditure to first oil on the Kraken and Scolty/Crathes developments (remain on track) and the future phases on the drilling programme on Kraken. Whilst much of this expenditure has been contracted on fixed price lump sum contracts, risks remain that capital expenditure could exceed that projected, and/or that commissioning of projects, in particular Kraken, could occur later than projected. A growth in capital expenditure, or delays to the commissioning of Kraken, could result in reducing the Group's liquidity during the period of the review.

  The Directors and management team monitor project progress against key milestones and ensure timely intervention as appropriate. In addition the management are engaging with the key contractors to improve the near-term liquidity.

- **Access to funding**
  The Directors recognise the importance of ensuring medium term liquidity particularly in light of the recent further decline in oil price. EnQuest has a diversified funding structure including a committed $1.2 billion Revolving Credit Facility and a further $0.5 billion potentially available through an accordion structure. Repayment of the RCF commences in October 2017 with final repayment due in October 2019. In addition it has a £155 million Retail Bond and $650 million High Yield Bond, with both maturing in 2022.

  Recognising the decline in oil price in late 2014, the Directors engaged with it's facility providers and bond holders and in early 2015 secured a relaxation to the relevant financial covenants until mid-2017. The Directors continue to work closely with the lenders in the Revolving Credit Facility to ensure that funding remains available.

In conducting the viability review, these risks have been taken into account in the stress testing performed on the base case described above. Specifically the base case, which includes the additional 10.5% interest in Kraken acquired from First Oil, has been subjected to stress testing by considering the impact of the following plausible down-side risks:

- a six month delay to first oil from Kraken;
- a 10% increase in opex;
- an increase in capital expenditure associated with the Kraken project;
- a 5% reduction in production; and
- replacement of the existing surety bonds with letters of credit, resulting in a reduction in the available debt capacity.

A scenario has been run illustrating the impact of the above risks on the base case. Without all the mitigating actions being implemented, this plausible down-side case would result in further funding being required in the absence of a significant recovery in oil prices and/or the ongoing support of the lenders. If this was the case then the Group's viability would be under threat. However, the Group also has a number of other liquidity enhancing options including asset sales and other financing which are also currently being considered.

Having reviewed the Group's financial position as at March 2016, the future projections, the principal risks and uncertainties and the mitigating actions, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019 and therefore support this viability statement.

Key performance indicators	2015	2014
North Sea Lost Time Incident Frequency (LTIF)	**2.14**	0.00
Malaysia LTIF	**0.00**	N/A
Net 2P reserves (MMboe)	**216**	220
Business performance data:		
Production (Boepd)	**36,567**	27,895
Revenue ($ million)	**906.6**	1,009.9
Realised blended average oil price per barrel (excluding hedging) ($)[1]	**72.0**	103.9
Opex per barrel (production and transportation costs) ($)	**29.7**	42.1
Cash capex on property, plant and equipment oil and gas assets ($ million)	**751.1**	1,058.2
Reported data:		
Cash generated from operations ($ million)	**221.7**	632.2
Net debt ($ million)	**(1,548.0)**	(967.0)
EBITDA ($ million)	**464.8**	581.0

1 Including revenue of $261.2 million (2014: $31.7 million) associated with EnQuest's effective oil price hedges.

Corporate responsibility review

"Evidence of our commitment to maintain excellence in HSE&A was apparent throughout 2015 in the ongoing implementation of our Continuous Improvement Plan."

Andy Lane
UK Head of Engineering and Health, Safety, Environment & Assurance ('HSE&A')

Health, Safety, Environment & Assurance ('HSE&A'): HSE&A performance in 2015 was below the high watermark of 2014 but nonetheless still strong.

In 2015, we maintained our pursuit of very high HSE&A performance levels.

In the UK, we delivered another strong HSE&A performance, however not as strong as the exceptional performance delivered in 2014. Although most of our assets achieved their Lost-Time Incident Frequency Rate ('LTIFR') and Recordable Injury Frequency Rate ('RIFR') targets, some did not. High-Potential Incidents ('HIPOs') and Dangerous Occurrences ('RIDDOR') were however better than target overall and we were pleased to record a Safety Critical Maintenance backlog of zero at year end.

In October 2015, we were delighted that the Kittiwake platform recorded 10 years without a Lost-Time Incident. This record was achieved against the backdrop of ongoing high levels of activity on the platform.

Evidence of our commitment to maintain excellence in HSE&A was apparent throughout 2015 in the ongoing implementation of our Continuous Improvement Plan. Encompassing 12 identified areas of activity, it witnessed material progress under each of its strategic themes: leadership and culture, control of major accident hazards, personal health and safety, and environmental controls.

Examples include:

- Completion of an embedding process for risk management procedures across all EnQuest sites
- Implementation of a simplified and standardised control of work system, focusing on major accident hazards
- Roll-out of enhanced control procedures for lifting operations
- Introduction of new treatment systems offshore to reduce volume of waste from drilling programmes and asset operations going to landfill
- Development of a programme to identify, and effectively manage, all environmentally critical elements on operated assets

A major exercise was instigated to update EnQuest's safety case systems following the introduction of updated UK regulations in July 2015, in response to the EU's Offshore Safety Directive. The HSE&A and DECC have together formed a joint competent authority, the Offshore Safety Directive Regulator ('OSDR'), and we have taken the required steps to ensure compliance throughout upcoming safety case review programmes.

Operations Excellence – and its three overarching themes of controlling major accident hazards, minimising waste and maximising production – remains a key reference point for our HSE&A activities. The 2015 appointment of Ian MacRae as Operations Functional Manager serves to underpin this commitment.

The appointment of a new HSE&A Manager in August 2015 ensured continuity in the development and delivery of our improvement plans.

We took key steps towards formalising our network of voluntary environmental representatives ('E-Reps') on our assets. Our first E-Rep forum was held in October and more are planned for 2016. The initiative provides greater support for the work of E-Reps by enhancing their profile and responsibilities, providing new learning opportunities and sharing best practice.

In Malaysia, we completed our first full year of operations with no Lost-Time Incidents ('LTIs'). We completed 700,000 man hours on the Tanjong Baram project with no accidents or injuries. We continue to develop our in-country HSE&A framework, in line with the prevailing legislative environment and EnQuest's own processes, principles and values.

People: Challenging macro-economic conditions intensified

EnQuest took significant steps in 2015 towards realising a key strategic goal: shaping a streamlined organisation which provides our talented people with the platform to deliver a clearly defined work programme.

The business decision to focus for now solely upon operations in the UK and Malaysia, allied to the challenges posed by the low oil price environment and rising operating costs in the North Sea, created the impetus behind

our pursuit of this goal. Our People and Organisation strategy – the right organisation, with great people, who deliver exceptional performance, in the EnQuest way – provided the necessary framework.

Headcount reduction was inevitably part of our response. We strived to execute the process with respect and consideration throughout and we also took wider steps to create a simplified, more efficient and highly focused organisation.

In the UK, our northern North Sea assets moved to an equal time rota in 2015; our central North Sea operations are doing likewise in 2016. In line with wider market practices, we adjusted our contractor rates.

We further deepened EnQuest's direct presence offshore, with another tranche of personnel choosing to become EnQuest employees rather than contractors, thereby enabling us to build our capabilities further in key areas.

In addition, we established a Dubai based team to deliver all purchasing support for our North Sea operations. This has created a simplified supply chain environment, delivering greater purchasing diversity and new commercial advantages.

A reorganisation exercise within our wells delivery function, allied to the introduction of offshore coaches, yielded outstanding performance – not least on the Kraken drilling programme. The Kraken team as a whole delivered exceptional results, despite the highly challenging work programme and geographical diversity of the project. The team embraced the principle of collaboration, and remained focused and engaged throughout.

The successful relocation to our new offices in Annan House in Aberdeen – completed on time and on budget – has served to mature the EnQuest culture and supported a collective focus on our long term sustainability.

During our first full year of operations in Malaysia, we worked to optimise the organisation and build a distinct EnQuest culture within it.

Specifically, as part of our strong working partnership with PETRONAS, we signed up for its people development initiative, Prodigy (Programme for the Development of Ingenious Young Talent), committing to take graduates on board in our drilling and operations functions. A competency system was introduced to our offshore operations to help achieve high performance in work execution and demonstrate our commitment to Safe Results.

Our Malaysia operations also moved into a single new office facility in Kuala Lumpur to bring all personnel together in one location.

Aberdeen's Tullos pupils learning about remotely operated vehicles.

Community: Continuing charitable focus on Archway, the learning disabilities support group

Despite the challenges posed in the prevailing low oil price environment, EnQuest remained fully committed to an active community engagement programme throughout 2015.

By applying our values of collaboration and creativity, and specifically by capitalising upon our relationships with companies in our supply chain, we sought to add substance and extra value to our community support activities.

This was particularly evident in our ongoing work with Tullos Primary School in Aberdeen. We arranged for pupils to visit the facilities of Bond Offshore Helicopters, to view aircraft and speak to pilots and engineers. Likewise, a group from Tullos visited remotely operated vehicle (ROV) provider i-Tech, a division of Subsea 7.

The purpose of these events was to give young people a direct insight into specialist areas of the oil and gas industry and encourage them to consider the career opportunities they present. More broadly, our aim was to inspire them to build a career in any sphere of working life.

It was with similar objectives in mind that we hosted a careers day for 30 pupils at Annan House to profile not only the core professional disciplines at EnQuest but also all key support areas, from administrative and security operations to IT and HR.

We continued to enjoy a fruitful relationship with the Paul Lawrie Foundation. The charitable organisation twice brought pop-up sports facilities to Tullos School to encourage participation and skills development.

Archway, an Aberdeen-based charity which supports young people and adults with learning disabilities, was one of our nominated charities in 2015 and the relationship is continuing into 2016. Over the year, the organisation benefited from various fund-raising activities at EnQuest as well as support from EnQuest personnel for Archway-led ventures to generate funds. There was also practical support, in the form of EnQuest team visits to Archway facilities to perform refurbishment work.

EnQuest's charity committee reviews requests for support on an ongoing basis, and selects a number that meet our established criteria. We did so throughout 2015: the projects that benefited from our support included *dates-n-mates Aberdeen*, which offers friendship and dating opportunities to adults with learning disabilities. EnQuest staff spent time decorating the organisation's Halloween party venue appropriately to ensure the occasion was a success.

Tullos pupils visiting Bond Offshore Helicopters to learn about career opportunities.

Business conduct

The Group has zero tolerance of slavery and expects the same of all with whom it has business dealings; for example, in relation to procurement, by requiring suppliers to confirm their commitment to anti-slavery before being qualified to supply the Group. The Group has also begun implementing procedures that will ensure that it is fully compliant with its obligation under the Modern Slavery Act 2015.

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

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 16 March 2016

Stefan Ricketts
Company Secretary

Board of Directors

Dr James Buckee
Non-Executive Chairman

Appointed
22 February 2010

Committees
Nomination (Chairman) and Remuneration

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, and worked in many different locations, including Norway, Aberdeen, New Zealand, Australia, Qatar, Alaska and 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. In 1993 James became president and chief executive officer of Talisman Energy Inc. ('Talisman'). During his tenure, Talisman experienced very significant growth, with operations ultimately covering over 20 countries, annual production rising to over 500,000 barrels per day and annual capital expenditure rising to approximately $5 billion. James retired from Talisman in 2007.

Other principal external appointments
Non-executive director of Magma Global and Black Swan Energy. James is also on the advisory board of KERN partners.

Amjad Bseisu
Chief Executive

Appointed
22 February 2010

Committees
Nomination

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 and was the chief executive of Petrofac Energy Developments International Limited, the operations and investment business for Petrofac Limited, which organically grew an upstream and midstream oil and gas business in South East Asia, the UK, and North Africa. In 2010 Amjad formed EnQuest PLC having previously been a founding non-executive chairman of Serica Energy plc and a director of Stratic Energy Corporation.

Other principal external appointments
British Business Ambassador for Energy 2013-15, non-executive chairman of Enviromena Power Systems, a private company and the leading developer of solar services in the Middle East and chairman of The Amjad and Suha Bseisu Foundation.

Jonathan Swinney
Chief Financial Officer

Appointed
29 March 2010

Committees
None

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.

Other principal external appointments
None

Helmut Langanger
Senior Independent Director

Appointed
16 March 2010

Committees
Remuneration (Chairman) 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. In his capacity Helmut was in charge of 14 countries. Production increased from 80,000 barrels per day to 320,000 barrels per day.

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 and Remuneration

Skills and experience
Phil Nolan holds a BSc and PhD in Geology and has an MBA from the London Business School. Phil spent 15 years with BP working in the UK, the US, Australia and Southeast Asia. Latterly he was responsible for acquisition and disposals for BP Exploration worldwide and was managing director of Interconnector (UK) Limited which built and operates the gas pipeline between Bacton and Zeebrugge. He joined BG Group plc ('BG Group') where he was chief executive director of Transco which runs the UK gas pipeline network and sat as an executive member of the BG Group board. On demerger from BG Group Phil was chief executive director of the Lattice Group plc, a FTSE 100 company. Subsequently Phil was chief executive director of eircom Limited the national Irish telecoms company.

Other principal external appointments
Chairman of the John Laing Group plc; an international infrastructure developer and investor with operations in the UK, Europe, Australia, New Zealand, Canada and North America. Phil is also chairman of the Ulster Bank and Affinity Water Limited. Phil is a non-executive director of Providence Resources plc; an Irish oil explorer.

Jock Lennox
Non-Executive Director

Appointed
22 February 2010

Committees
Audit (Chairman) and Risk

Skills and experience
Jock Lennox holds a Law degree and in 1980 qualified as a chartered accountant with Ernst & Young LLP ('EY'), Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at EY. In his time at EY Jock was seconded to work in Seattle, US in the early 1980s. Throughout his career he worked with a range of multinational clients, working on projects in many countries. He also held a number of EY Global leadership positions. Jock retired from EY 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

Committees
Risk and Audit

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.

Clare will not be standing for re-election at the 2016 Annual General Meeting.

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.

Philip Holland
Non-Executive Director

Appointed
1 August 2015

Committees
Risk (Chairman)

Skills and experience
Phil Holland holds a BSc in Civil Engineering from Leeds as well as an MSc in Engineering and Construction Project Management from Cranfield School of Management. Phil has extensive experience in managing large scale oil and gas projects around the globe. In 1980, Phil joined Bechtel Corporation, where for over 20 years he managed major oil and gas projects in a wide range of international locations. In 2004, Phil joined Shell as vice president of projects, Shell Global Solutions International. In 2009, Phil became executive vice-president downstream projects in Shell's newly formed projects and technology business and then in 2010 he was appointed as project director for the Shell development Kazakhstan's Kashagan phase 2 project, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant.

Other principal external appointments
None

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. Neil holds a number of external appointments including operator co-chair of Oil and Gas UK and a board member of the Oil and Gas Innovation Centre.

Faysal Hamza
Head of International

Faysal has an MBA from Georgetown University in Washington and over 26 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 a 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).

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. His primary responsibility is the delivery of the Kraken project.

Stefan Ricketts
General Counsel, Company Secretary

Stefan joined EnQuest in 2012 and is responsible for all legal, 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 Group General Counsel at BG Group plc. Stefan, who graduated from the University of Bristol with a degree in law, began his early career as a solicitor with Herbert Smith, has significant experience as a lawyer and in management working across the energy chain and in all phases of project development and operations. In previous roles he has been based in London, Paris, Dubai, Jakarta, Singapore and Hong Kong.

Graeme Cook
Human Resources Director

Graeme holds an MA in Accountancy & 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. Following this, Graeme was Group Head of Talent & 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 growth agenda.

Chairman's letter

"Operating efficiency has always been central to EnQuest and 2015 saw the Company further pursue cost reducing strategies."

Dear Shareholder

During the period under review EnQuest PLC ('EnQuest' or the 'Company') has generated strong production growth. The Company operates in a geopolitical environment that has become more turbulent and the price of oil has significantly declined since the second half of 2014. Operating efficiency has always been central to EnQuest and 2015 saw the Company further pursue cost reducing strategies. Although the Company is incurring debt to assure delivery of projects to which we have committed, the consequential increases in production and improvements in production efficiency should position EnQuest to meet the challenges of a lower price environment and to prosper from oil price recovery. In the last year EnQuest has achieved excellent operational performance with high production efficiency, combined with a successful drilling programme.

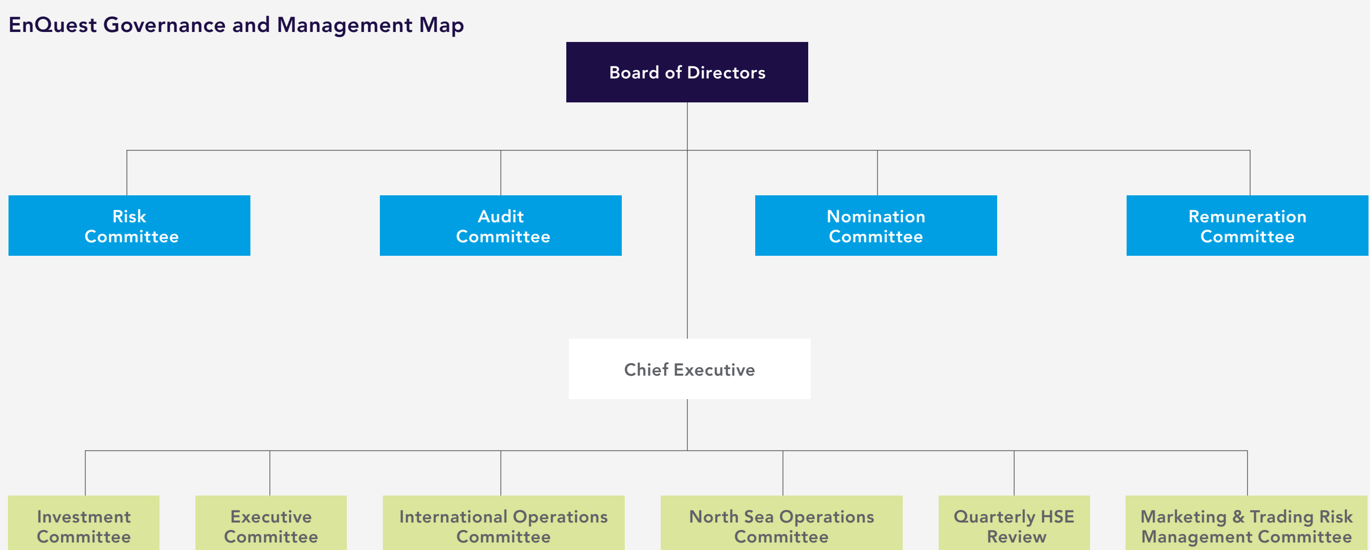
Corporate governance

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's corporate governance report. The Board believes that the manner in which it conducts its business is important and it is striving to deliver the highest standard of corporate governance. Ensuring the right approach to governance is taken and that the Board works effectively remains a key focus of the Company. EnQuest's Company values of Respect, Focus, Agility, Creativity, Passion, Collaboration and Empowerment help to foster a working environment where people are safe, creative and passionate, with a relentless focus on results. These values guide everything we do at EnQuest.

The work of the Board is supported by several key Board Committees. The Audit, Remuneration and Nomination Committees have recently been supplemented by the creation of a new Risk Committee. Each of these Committees has formal terms of reference approved by the Board. Further details on each Committee can be found on pages 58 to 61 (Audit), pages 62 to 75 (Remuneration), pages 76 to 78 (Nomination) and page 57 (Risk). These Committees report back to the Board after each meeting.

EnQuest's governance framework also contains several non-Board committees, which provide advice and support to the Chief Executive, including an Executive Committee and an Operations Committee for the North Sea business division. The Company also holds dedicated HSE reviews on a quarterly basis which are chaired by the Chief Executive. During 2015 a hedging policy was adopted which, inter alia, required the set up of a new non-Board committee, the Marketing and Trading Risk Management Committee.

EnQuest Governance and Management Map



Board composition and succession planning

The Board regularly considers how it operates and whether there is an appropriate composition and mix around the Board table, both to respond to today's challenges and to enhance EnQuest's future strategic direction. The Board was further strengthened during 2015 with the addition of Philip Holland, who EnQuest is delighted to welcome to the Board. Phil joined the Board as a Non-Executive Director in August 2015 and brings deep experience of capital projects management in the oil and gas industry. Phil is the Chairman of the newly formed Risk Committee.

The Company will reach its ninth anniversary in 2019 and the Board considers it desirable to ensure the independence of its Non-Executive Directors through a phased approach to the retirement of its existing Non-Executive Directors. Consequently, Clare Spottiswoode will be retiring from the Board in 2016. The Board would like to extend its gratitude to Clare for her valuable contributions during her tenure with EnQuest.

Board evaluation

2015 saw EnQuest's second externally facilitated Board review, which confirmed again that it is a well run and well governed organisation, with a strong leadership team. The review highlighted that as EnQuest moves from being a new entrant to an established producer in a more challenging external environment it must continue to evolve its governance procedures in line with this transition. The Board has adopted a number of measures as it progresses this agenda; such as streamlining the membership of Board Committees, the introduction of the Risk Committee as a Committee of the Board; and a more structured approach to refreshing Board membership over time. See page 56 for details.

Corporate responsibility

The Company's corporate responsibility is focused on five main areas. These are Health and Safety, People, Environment, Business Conduct and Community. EnQuest is committed to operating responsibly and never knowingly compromises its health and safety standards in order to meet operational objectives. EnQuest's approach to HSE&A management is built on its Company values. Through respect for its people, contractors, stakeholders and the environment, EnQuest pursues its principal aims: safe results, with no harm to people and respect for the environment.

EnQuest has developed an Environmental Management System ('EMS') to ensure its activities are conducted in such a way that it can manage and mitigate its impact on the environment. The system is broadly aligned with the requirements of the International Organisation for Standardisation's environmental management system standard – ISO 14001:2004. EnQuest works to minimise its impact on the environment and reports on, and measures, liquid waste, accidental spills, atmospheric emissions, waste management and continual improvement. Public environmental statements relating to the Company's operations are available on the website www.enquest.com.

Risk

This has been the first year that EnQuest has implemented the Risk Management Framework ('RMF') adopted in 2014. During the year the risk, planning and strategy work of the Executive Committee has been further aligned and the Board has established a new Committee, the Risk Committee, which is empowered to review individual risk areas in depth and report thereon to the Board.

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 2015. The workshop involved a comprehensive review of the Company's existing strategy (aligned with the mitigation of the Company's principal risks) as well as identification of key themes to help it navigate changes in the landscape for the business. EnQuest is confident that its strategy has positioned it well to achieve its long-term goals and to maximise shareholder value.

Dr James Buckee
Chairman

Corporate governance statement

Statement of compliance

The Financial Reporting Council ('FRC') published a revised UK Corporate Governance Code (the 'Code') in September 2014, which was effective for year ends beginning on or after 1 October 2014. The Board is pleased to report that all principles of the Code have been complied with in the period under review. EnQuest embraces the spirit of the Code and views corporate governance as an essential part of its framework, supporting structure, risk management and core values.

Key corporate governance activities in 2015	Details
An external review of EnQuest's environmental reporting	This was benchmarked against the Company's peers and concluded that EnQuest is performing well in this area
An externally facilitated Board review	This provided positive feedback and useful suggestions, see page 56 for details
Creation of an Investment Committee	Formed of members with prior investment experience, in response to falling oil prices
Move to a vote on a poll	2015 will see EnQuest move from a vote on a show of hands to voting on a poll

Leadership

The long-term success of the Company is the collective responsibility of the Board.

Board composition and changes

For the year ended 31 December 2015 the Board had eight Directors, consisting of two Executive Directors and six Non-Executive Directors (including the Chairman). The biographical details of each are set out on pages 48 and 49. The Board appointed a new Non-Executive Director, Philip Holland, with effect from 1 August 2015.

The role of the Board

The Board is the custodian of the Company's values, its long-term vision and provides strategic direction and guidance for the Company in order to deliver long-term shareholder value.

The matters reserved to the Board for its decisions are detailed in a formal schedule. This schedule is reviewed and approved by the Board. The key reserved matters include:

- the Group's overall strategy;
- review business plans and trading performance;
- approval of major capital investment projects;
- examination of acquisition opportunities and divestment policies;
- review of significant financial and operational issues;
- review and approval of the Company's financial statements;
- oversight of control and risk management systems (supported by the Audit Committee); and
- succession planning and appointments (supported by the Nomination Committee).

The Board held six scheduled Board meetings in the year ended 31 December 2015, 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, a number of ad hoc meetings were arranged in order to deal with matters that required consideration at short notice. It is expected that all Directors attend scheduled Board and relevant Committee meetings and the Company's Annual General Meeting ('AGM'). Details of Board and Committee membership and attendance can be found on pages 56, 58, 63 and 77.

All Directors are covered by the Company's Directors' and Officers' insurance policy.

A clear division of responsibilities

There is a clear division between the role of the Chairman and Chief Executive; this has been set out in writing and agreed by the Board. The Chairman was independent upon his appointment to the Board, and the Board continues to consider him to be an independent Non-Executive Director. The Chairman is responsible for setting the leadership of the Board, setting the Board agenda and ensuring the overall effective working of the Board. The Chief Executive is accountable and reports to the Board. His role is to develop strategy in consultation with the Board, to execute that strategy following presentation to, and consideration and approval by, the Board and to oversee the operational management of the business.

The role of the Non-Executive Directors

The Non-Executive Directors combine broad business and commercial experience from oil and gas and other industry sectors. They bring independence, external skills, objective judgement and constructively challenge the actions of senior management. This is critical for providing assurance that the Executive Directors are exercising good judgement in delivery of strategy and decision making. The Board is satisfied that all of the Non-Executive Directors meet the independence criteria as set by the Code. Information on the skills and experience of the Non-Executive Directors can be found in the Board biographies on pages 48 to 49.

The Chairman holds one-to-one and group meetings with the Non-Executive Directors, without the Executive Directors present, at least once a year.

The role of the Senior Independent Director

The Senior Independent Director ('SID') is available to shareholders if they have concerns where contact through the normal channels of the Chairman, the Chief Executive or other Executive Directors has failed to resolve an issue or where such contact is inappropriate. In his role as the SID, Helmut Langanger continues to provide a sounding board for the Chairman as well as act as an intermediary with other Directors when necessary.

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

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 2015:

	Board meetings	Audit Committee[2]	Remuneration Committee[2]	Nomination Committee[2]
Meetings held in 2015	6	3	3	1
Executive Directors				
Amjad Bseisu[1]	6	n/a	n/a	1
Jonathan Swinney[1]	6	n/a	n/a	n/a
Non-Executive Directors				
Dr James Buckee[1]	6	n/a	n/a	1
Helmut Langanger	6	3	3	1
Jock Lennox	6	3	3	n/a
Philip Nolan	6	3	3	n/a
Clare Spottiswoode	6	3	3	n/a
Philip Holland[3]	3	2	1	n/a

Notes:
n/a not applicable where a Director is not a member of the Committee.
1 Amjad Bseisu, Jonathan Swinney and James Buckee have attended Committee meetings by invitation. These details have not been included in the table.
2 Committee membership has been streamlined for 2016, see page 56 for new Committee memberships.
3 Philip Holland was appointed on 1 August 2015.

Board activities during the year

How the Board operates
During 2015 the Board held six scheduled meetings and ad hoc meetings were arranged to deal with matters arising between scheduled meetings as appropriate. Board meetings are preceded by a day of Committee meetings as appropriate. This pattern of meetings is intended to support the Board's focus on the strategic and long-term matters, while ensuring that it discharges its monitoring and oversight role effectively through intensive high quality discussions and high quality information flow.

All Board papers are published via an online Board portal system. This offers a fast, secure and reliable method of distribution, which helps lower the Company's environmental impact through the reduction of printing and lowers costs associated with printing and postage. Board agendas are drawn up by the Company Secretary in conjunction with the Chairman and with agreement from the Chief Executive.

Board agenda and key activities throughout 2015

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

Matters considered at all Board meetings

- Responses to oil price declines
- Key project status and progress
- Strategy
- 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
- Assurance and risk management

Key activities for the Board throughout 2015

- Review of capital raising options
- Compliance with debt covenants and liquidity
- Risk and long-term viability review
- Annual offsite strategy day held in October
- Evolution of Risk Management Framework
- 2015 budget review and 2016 budget approval
- Review and approval of the HSE&A policy
- Periodic updates on corporate regulatory changes and reporting requirements
- Project assurance processes
- Hedging strategy and policy
- Annual anti-corruption review
- Implementation of Investment Committee
- Cyber security audit
- Externally facilitated Board review

Corporate governance statement continued

Board Committees

The Board delegates a number of responsibilities to its Audit Committee, Remuneration Committee, Nomination Committee and now to its newly formed Risk Committee. The Chairman of each Committee reports formally to the Board on its proceedings after each meeting and makes recommendations that it deems appropriate to the Board for its consideration and approval. There are formal terms of reference for each Committee, approved by the Board. The terms of reference for each of these Committees sets out the scope of authority of the Committee, satisfies 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 www.enquest.com.

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 other than the Remuneration Committee, for which the Human Resources Director acts as secretary, and minutes of all Committee meetings are available to all Directors.

One of the recommendations made in the 2015 external Board review was to limit the memberships of EnQuest's Board Committees. The following proposals were made and adopted in December 2015 for the Nomination Committee and in January 2016 for the remaining three Committees:

Nomination Committee	Audit Committee
Dr James Buckee (Chair) Helmut Langanger Amjad Bseisu	Jock Lennox (Chair) Philip Nolan Clare Spottiswoode
Risk Committee	**Remuneration Committee**
Philip Holland (Chair) Clare Spottiswoode Jock Lennox	Helmut Langanger (Chair) Dr James Buckee Philip Nolan

In addition to the four Board Committees, EnQuest has several non-Board committees, which assist the Chief Executive in the implementation and monitoring of strategy. These are the Executive Committee, Investment Committee, International Operations Committee, North Sea Operations Committee and the Group Health, Safety, Environment and Assurance team.

Delegation of authority

Responsibility levels are communicated throughout the Group as part of the business management system and through an authority matrix which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures.

Board performance evaluation

In 2015, the Board appointed Colin Mayer, an independent external facilitator, to conduct a Board evaluation review. The process consisted of one-to-one structured interviews with each Director, selected senior management, the outgoing and incoming partners in charge of external audit, two investors and one of EnQuest's banks, as well as attendance at Board and Committee meetings.

The evaluation showed that EnQuest is a well governed and well run company that comfortably conforms to the requirements of the Code. The Company has executives of the highest calibre, led by an outstanding Chief Executive and a first rate Chairman. Board proceedings are relaxed, with a strong sense of team spirit and collegiality, encouraging open and frank discussions.

A number of agreed action points from the 2015 Board evaluation review are set out below:

- An annual assessment of the performance of each Board member supplemented to the review of the performance of the Board as a whole will be conducted by the Chairman
- Board Committee memberships streamlined
- Structured Board succession planning
- A Risk sub-Committee of the Board with clear terms of reference
- Streamlining of the Board pack format, in order to facilitate Board decisions

In addition to the external Board evaluation, the Senior Independent Director led a rigorous review of the Chairman, in conjunction with the other Board members. The review recognised that the Chairman brings a deep knowledge of the business, together with extensive experience and expertise. Certain areas of focus were identified to optimise how the Chairman can best ensure the most effective operation of the Board in the future, and these areas will be reviewed at the following year's review. Helmut Langanger and Jock Lennox were also each subject to a particularly rigorous review by the Nomination Committee, as they approach their six year tenure with the Company, and the Committee concluded that each of those Directors continues to provide valuable service to the Company.

Induction, information and support

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

On joining EnQuest, Non-Executive Directors receive a full and tailored induction to the Company. The induction programme consists of a comprehensive briefing pack, which includes Group structure details, the constitution of the Company, the Group governance map, a guide to Directors' duties, terms of reference of each Committee, Group policies and the Company's delegation of authority. In addition to this, each Director receives an introduction to the Company's resource centre (including all external communications, such as investor presentations, reports and corporate responsibility reports) and a schedule of one-to-one meetings with each of the Executive Directors, members of senior management and external advisers.

All Non-Executive Directors have access to the Company's senior management between Board meetings and the Board aims to hold at least one meeting each year in one of the business units to allow Non-Executive Directors to meet and engage with local staff. In addition, the continuing development of Board members is supported through regular briefings on key business, industry, governance and regulatory 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.

Accountability

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 and 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
The Company has a number of policies covering anti-bribery and corruption and the overall anti-bribery and corruption programme is reviewed annually by the Board.

As part of training, the Company also requires new personnel to familiarise themselves with the Company's Code of Conduct and a corruption risks awareness email is sent out annually by the Chief Executive (to prompt all personnel to complete an online anti-corruption training course). In addition, the Company runs a focused training programme targeted towards particular groups of personnel.

The Company also encourages staff to escalate any concerns and, to facilitate this, provides an external 'speak-up' reporting line. The limited number of relevant instances that were reported to the Board were investigated by the Company's General Counsel.

Risk
EnQuest has continued throughout the year to implement and develop its comprehensive Risk Management Framework, which was developed in 2014, and has conducted a robust assessment of the principal risks facing the Group; see pages 22 to 27 of the Strategic Report for further information.

The Company has further embedded its risk principles by establishing an additional committee of the Board, a Risk Committee. The primary responsibility of the Risk Committee will be to act as a forum for engaging in thorough analysis of particular material risks that the Board believes merits analysis and discussion in greater depth than is ordinarily practicable within the agendas of full Board meetings. The initial activity of the Risk Committee is to set its agenda for the coming year. The terms of reference of the Audit Committee remain unchanged and it remains responsible for the following risk management related tasks:

- reviewing the effectiveness of the Company's internal controls and risk management systems;
- reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management; and
- monitoring and reviewing the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

Relations with shareholders

Engagement with shareholders
EnQuest maintained an active and constructive dialogue with its shareholders throughout the year through a planned programme of investor relations activities. In 2015 the Chairman and the Company's Senior Independent Director met with officers of certain large institutional investors and discussed matters of corporate governance. The Board was then updated on the outcome of those meetings. The Company's investor relations team keeps the Board informed of broker and analysts' views, and presents a paper at each Board meeting. In addition, EnQuest periodically carries out an independent survey to a cross section of shareholders in order to assess shareholder perception of the Company.

EnQuest's investor relations team and Company Secretarial department field daily queries from shareholders and analysts and there is a section of the website dedicated to shareholders: www.enquest.com. EnQuest's registrars, Capita, also have a team of people to answer shareholder queries in relation to technical aspects of their holdings, such as shareholding balances.

All of the Company's financial results presentations are available on the website at www.enquest.com and shareholders can register on the website to receive email alerts.

In 2015 numerous investor and broker sales team and analyst meetings were held, including presentations at investor conferences, results presentations and a capital markets day for investors was held in December 2015. At the beginning of the year investors attended a site visit in Newcastle, which included a tour of the EnQuest Producer FPSO, in respect of the Alma/Galia development. As normal, EnQuest offered to make available meetings with the Chairman and Senior Independent Director for discussion of any governance or other matters and some such routine meetings took place in 2015.

2015 Annual Report
The Directors are responsible for preparing the Annual Report and Financial Statements and consider that, taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Annual General Meeting
The Company's AGM is attended by the Board and senior management and is open to all EnQuest shareholders to attend. The Chief Executive gives a presentation on operational matters before the Chairman deals with the formal business of the meeting. To encourage shareholder participation, EnQuest offers electronic proxy voting through the CREST electronic proxy appointment service. At the AGM all resolutions are proposed and voted upon individually by way of a poll by shareholders or their proxies. All shareholders present can question the Board during the meeting as well as informally afterwards.

Audit Committee Report

"We will remain focused on continuing to monitor closely the Group's financial position and liquidity, as well as overseeing the execution of our risk-based internal audit plan."

Dear Shareholder

The Audit Committee's core responsibilities are to:

- monitor the integrity of the financial statements and the appropriateness of the related significant judgements and estimates;
- review the effectiveness of internal financial controls;
- monitor and review the effectiveness of the internal audit function; and
- in respect of the external auditor, make recommendations to the Board in relation to their appointment, re-appointment and removal, approve their remuneration and terms of engagement, review their independence and objectivity, and develop and implement the non-audit services policy.

Our full terms of reference are available on the Company's website www.enquest.com under investors/shareholder centre.

As planned when we last reported to you, our work in 2015 has responded to the continuing decline in the oil price. The price environment has unsurprisingly put pressure on the Company's cash flows and liquidity, and the viability of the Company. We have taken this into account in our review of the going concern assumption, and through overseeing how the Company has complied with the new requirements in respect of the viability statement. Additionally, through internal audit, we have reviewed the Group's cash flow modelling, to ensure it is robust and well controlled.

The oil price deterioration has also increased the risk in respect of certain judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, 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.

With the oil price uncertainty expected to continue throughout 2016, we will remain focused on continuing to monitor closely the Group's financial position and liquidity, as well as overseeing the execution of our risk-based internal audit plan.

Jock Lennox
Chairman of the Audit Committee
16 March 2016

Committee composition

As required by the UK Corporate Governance Code (the 'Code'), the Committee is comprised exclusively of Non-Executive Directors, biographies of whom are set out on pages 48 and 49. The Board is satisfied that the Chairman of the Committee, a previous audit partner of EY, 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 2015 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
Philip Nolan	1 August 2012	3/3
Philip Holland	1 August 2015	2/2

Committee membership has been streamlined for 2016, see page 56 for Committee membership.

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer the external auditors and other key finance team members as required. 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 auditors during 2015, attended the meetings as appropriate. The Chairman of the Committee regularly meets with the external audit partner (this included particular focus on going concern and longer-term viability) and the internal audit partner to discuss matters relevant to the Company.

Meetings during 2015

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 2015	Dec 2015	March 2016
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 2016		✓	
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 the viability statement		✓	✓
Corporate governance update	✓	✓	✓
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity			✓
Appropriateness of going concern assumption	✓	✓	✓
Review of Corporate Risk Register	✓	✓	✓

Financial reporting and significant financial statement reporting issues

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

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

We consider these items together with both management and our external auditors, who both provide reports to the Audit Committee in respect of these areas at each Committee meeting. The main areas considered during 2015 are set out below:

Significant financial statement reporting issue	Consideration
Going concern and viability The Group's assessment of the going concern assumption and viability 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 three years, based on the Group's latest risked production forecast; • the oil price assumption of $30 (2016), $40 (Q1 2017) and aligned to the current forward curve thereafter; • opex and capex forecasts based on the approved 2016 budget and plan; and • other funding activities including certain asset portfolio activities.	The Board regularly reviews the liquidity projections of the Group. In the December Audit Committee meeting a draft of the viability statement and supporting liquidity analysis was presented by management. The detailed going concern and longer-term viability analysis, including sensitivity analysis and stress testing, and explanations and justifications for the key assumptions made were presented at the March Audit Committee meeting. The external auditors presented their 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 viability statement and going concern assumption (see pages 44 to 45) 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 2015 of 216 MMboe (adjusted for the acquisition of a further 10.5% of Kraken from First Oil PLC, acquired 1 January 2016). 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.

Audit Committee Report continued

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 2015, a total of $3.7 billion had been capitalised in respect of oil and gas and other fixed assets, and $0.2 billion in respect of goodwill. The recovery of these amounts 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 $1.2 billion of tangible oil and gas assets. These impairment tests are underpinned by assumptions regarding: • 2P reserves (as audited by Gaffney Cline); • oil price assumptions (forward curve until 2019 and $70 real thereafter); • life of field opex and capex; and • an asset specific 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 $507 million at 31 December 2015, which is based on a discounted estimate of the future costs and timing of 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, and a further evaluation of the Kittiwake costs completed in 2015. These estimates underpin the 2015 provision. 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 initially on the estimates provided by the operator, and adjusted as necessary by our own internal experts, to ensure consistency in key assumptions with our other North Sea assets.	We reviewed the report by management summarising the key findings and their impact on the provision. Regard was also given to the observations made by EY as to the appropriateness of the estimations made.
Tax The Group carried deferred tax balances at 31 December 2015 totalling $1.3 billion of tax assets (primarily comprised of tax losses) and $1.2 billion of tax liabilities (after reducing the deferred tax liability by $0.6 billion following the asset impairments described above). The recoverability of the tax losses has then been assessed by reference to the tax projections derived from the Group's impairment testing. A write off of $0.5 billion of tax losses ($0.25 billion net) has been recorded following this assessment. 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.

Internal controls

The Code requires that the Board monitors the Company's risk management and internal control systems and, at least annually, carries out and reports on the results of a review of their effectiveness. The Board has oversight of risk management within EnQuest, and page 22 provides more detail on how the Board, and its Risk Committee, has discharged its responsibility in this regard.

Responsibility in respect of internal controls is delegated to the Audit Committee. Key features of the Group's internal control framework, the effectiveness of which is reviewed on an ongoing basis throughout the year, include:

- Clear delegations of authorities to the Board and its sub-committees, and to each level of management;
- HSE&A, operational and financial targets and budgets are set and monitored by management and the Board;
- A comprehensive risk management process with clear definition of risk tolerance and appetite. This includes a review by the Risk Committee of the management controls/actions which mitigate or minimise the high-level risks, to ensure that they are in operation;
- An annual risk-based internal audit plan developed in conjunction with management. Findings are communicated to the Audit Committee and follow up reviews are conducted where necessary; and
- Further objective feedback is provided by the external auditors and other external specialists.

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 auditors. 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.

In respect of the work performed by the internal auditors, we set the internal audit plan each year. When setting the plan we consider recommendations from management, the internal auditors, and have consideration of the risks impacting the Company, which are reviewed by the Board and Risk Committee. During 2015 internal audit undertook various projects, including reviews of:

- the appropriateness of the processes and controls in respect of the Group's corporate model. This review was specifically requested by the Committee given the increased importance of accurate liquidity projections and stress testing in managing the Group's financial position;
- the inventory management controls and processes in place in the Group's North Sea business unit;
- the processes, controls and governance in place in respect of the Trading & Marketing function. This review was designed to understand whether the organisation was appropriately structured and the necessary processes and controls were in place to support the planned increase in activity following the commissioning of the Alma/Galia project;
- the appropriateness of the finance processes and controls in respect of the Tanjong Baram Risk Service Contract in Malaysia, to ensure that the finance function was appropriate and complied with both PETRONAS' and EnQuest's requirements; and
- a post implementation review of the Group's new HR system which was implemented during 2014.

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.

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 reviews and agrees the audit plan and the associated fees. The process for reviewing the performance of EY involves interviewing key members of the organisation who are involved in the audit process, on an annual basis, to obtain feedback as to the performance of the external auditors. Additionally, the Audit Committee members take into account their own view of the performance of EY when determining whether or not to recommend their reappointment.

We formally evaluated the effectiveness of EY during our August meeting, and concluded that the Committee continues to be fully satisfied with the performance of EY, and that EY continues to be both objective and independent. In performing this evaluation, the Committee took account of the review of EY's 2014 audit conducted by the Financial Reporting Council ('FRC'). EY's 2014 audit had been selected as part of the FRC's annual Audit Quality Review, and the review focused on the quality of the audit work performed in respect of revenue recognition, oil and gas reserve estimates, impairment of assets and going concern. The Committee took comfort in the fact there were no findings that the Committee deemed significant. In evaluating the effectiveness of EY, 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. The Committee also took into account in this review the fact that the Committee Chairman is an ex-partner of EY.

In respect of audit tendering and rotation, the Committee has adopted a policy which complies with the proposed UK regulations and the requirements of the EU Audit Regulations. This policy requires an annual assessment of whether a tender is required on the basis of quality or independence, a mandatory tender after ten years, and rotation of audit firms at least every 20 years. As noted above, EY has been the Group's auditor since 2010, and the external audit has not been tendered in this time. Following the results of the annual evaluation of EY, which included taking account of the rotation of the audit partner after the conclusion of the 2014 audit, a decision was taken to not tender the 2016 audit. While no rotation is required until 2020, the Committee will continue to evaluate the appropriate time to conduct a tender. In recommending the reappointment of EY for 2016, the Committee took note of the reduction from the prior year in the absolute size of non-audit fees (from $296,000 in 2014 to $50,000 in 2015 (representing less than 8% of the total audit fees of $626,000)). The ratio of non-audit fees to audit fees over the last three years is 39%, which is below the 70% cap outlined in the Company's new policy in respect of non-audit services provided by the auditors.

Use of external auditors for non-audit services

The Audit Committee and Board believe that the external auditors' independence and objectivity can potentially be affected by the level of non-audit services to EnQuest. However, the Committee acknowledges that certain work of a non-audit nature is best undertaken by the external auditor. To ensure objectivity and independence, and to reflect best practice in this area, the Committee has recently implemented a policy that adopts the EU Regulations to be introduced from 17 June 2016. As a consequence of this the Committee took the decision to discontinue using EY for tax services, other than in very unusual circumstances. From 2017 the external auditors will be prohibited from providing any tax services.

As part of the Committee's process in respect of the provision of non-audit services, the external auditors provide the Committee with information about their policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and staff. EY confirmed their independence and objectivity.

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

- a pre-defined list of prohibited services has been established;
- a schedule of services where the Group may engage the external auditor has been established and agreed by the Committee;
- any non-audit project work which could impair the objectivity or independence of the external auditor may not be awarded to the external auditor; and
- fees for permissible non-audit services provided by the external auditor for three consecutive years are to be capped at no more than 70% of the average Group audit fee for the preceding three years.

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

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 57 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 2015. The report has three main sections:

1. Governance of remuneration at EnQuest.
2. The key elements of the Remuneration Policy 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 forthcoming financial year.
3. The Remuneration Report of the Executive Directors and Non-Executive Directors during 2015 which will be subject to an advisory shareholder vote at the 2016 AGM.

The Remuneration Committee aims to ensure that the remuneration policy supports business strategy and the highest levels of performance and governance. 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 2016.

Performance and reward for 2015

A strong underlying performance against certain key categories of the Company's 2015 scorecard (Production, Financial, and progress of the Kraken Development) was in contrast to the delayed start-up of the Alma/Galia development and, in particular, to the further decline in the global price of oil; the latter having a significant negative impact on EnQuest's share price and net 2P reserves. Management continue to take action in response to the decline in oil price by cutting operating and capital expenditures and managing the Company's balance sheet.

Overall performance by the Company was assessed by the Remuneration Committee to be once again marginally below the challenging targets set by the Board. Remuneration outcomes for the Executive Directors reflect this level of performance but also, in the case of the Chief Financial Officer, take into account his significant contribution in protecting the Company's financial position during a challenging period.

2015 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 61% of base salary (27% of maximum) for Amjad Bseisu and 119% of base salary for Jonathan Swinney (53% of maximum) have been made in respect of 2015 – partly paid in shares and subject to deferral. Further details of how these awards were determined are set out on pages 69 to 71. Despite the severe external challenges faced across the industry, the Committee considers these levels of awards to be appropriate for the good operational results and the extensive work on managing the Company's financial position.

2013 Performance Share Plan ('PSP') award

The 2013 PSP award, which had a three-year performance period ending 31 December 2015, vested at 76.6% of the maximum. Two of the three performance conditions were met in full (production growth per share and reserve growth per share), however only the threshold Total Shareholder Return ('TSR') measure was met. Details on the satisfaction of these performance conditions are included in the report.

Executive Director remuneration for 2016

Base salaries

For 2016, the base salaries of Amjad Bseisu and Jonathan Swinney have been frozen for the second year in a row in line with the general 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 2016, relating to the 2015 performance year, the Committee felt that it was appropriate to grant levels of awards equivalent to 156% of base salary for both Amjad Bseisu and Jonathan Swinney. These grants have been set at 78% of the normal maximum award and reflect the Committee's view of Company performance in 2015.

The weightings of the performance conditions of the 2016 PSP awards have been amended to respond to the current circumstances of both the Company and the wider industry. The TSR target is being given greater emphasis and will have a weighting of 50% (previously 30%). Converting 2P reserves into production and cash flow continues to be a strategic priority and will have a weighting of 40% (previously 50%). The Company will continue to look to acquire new 2P reserves to replace production and this is being given a weighting of 10% (previously 20%).

The Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of 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 and an updated policy will be presented to shareholders for approval at the 2017 AGM.

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
16 March 2016

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 UK Corporate Governance Code (the 'Code') in relation to remuneration. The Committee has taken account of the 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 2015

The Committee normally meets at least twice per year. During 2015 it met three times to review and discuss base salaries for Executive Directors, the setting of Company performance and related annual bonus for 2014, the satisfaction of performance conditions relating to the 2012 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
Philip Nolan	Member from 1 August 2012	Independent
Philip Holland	Member from 1 August 2015	Independent

Committee membership has been streamlined for 2016, see page 56 for Committee membership.

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 compliant with the Code and external practices as well as taking into account 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, Stefan Ricketts, acts as secretary to the Committee.

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

REMUNERATION POLICY

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

The full policy is as disclosed in the 2013 Annual Report and Accounts with the key features incorporated in this report.

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 shareholders' 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; and
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.

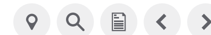
Directors' Remuneration Report continued

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.	• For 2016, the base salaries of the Executive Directors have been set as follows: Amjad Bseisu – £430,000 Jonathan Swinney – £280,000.
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%.

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 their 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.



Directors' Remuneration Report continued

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

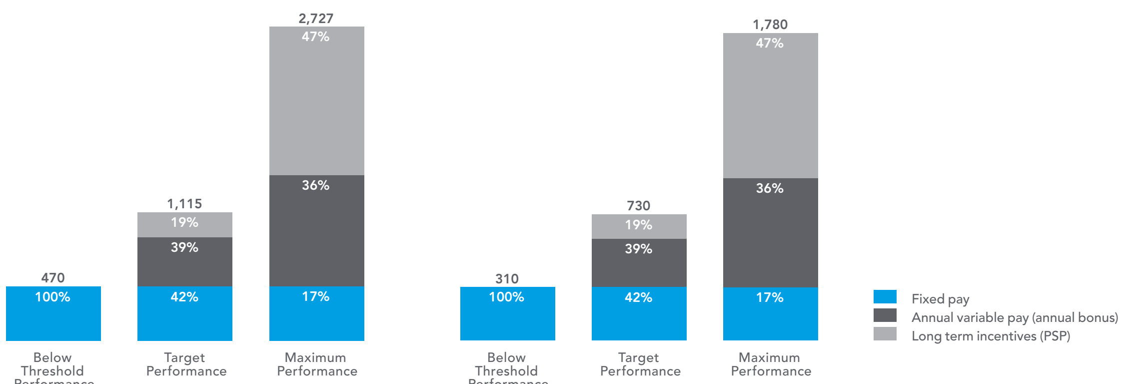
Remuneration outcomes in different performance scenarios

The charts set out an illustration of the remuneration arrangements in line with the remuneration policy described on pages 64 to 66. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

Three scenarios have been illustrated for each Executive Director:

Below threshold performance	• fixed remuneration; • zero annual bonus; and • no vesting under the PSP.
Target performance	• fixed remuneration; • 100% of annual base salary as annual bonus; and • 25% vesting under the PSP.
Maximum performance	• fixed remuneration; • 225% of annual base salary as annual bonus; and • 100% vesting under the PSP.

Chief Executive (£000s) **Chief Financial Officer** (£000s)



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 Executive Director on a below market salary initially (for example, to allow them to gain experience in the role) their salary may be increased to a market level over a number of years by way of a series of increases above the general rate of wage growth in the Group and inflation.

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

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

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

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

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

Directors' Remuneration Report continued

Service contracts

Amjad Bseisu and Jonathan Swinney entered into service agreements with the Company which are terminable by either party giving not less than 12 months' written notice. The Company may terminate their employment without giving notice by making a payment equal to the aggregate of the Executive Director's 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
Philip Nolan	1 August 2012	3 months	3 years
Philip Holland	1 August 2015	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 proportion to the satisfied performance conditions and are normally pro-rated for time.

Annual bonuses 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 2015 (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 2015 and 2014 and it includes a single total figure for each Director:

	2015 'single figure' of remuneration – £000s					
Director	Salary and fees 2015	All taxable benefits 2015	Annual bonus 2015[1]	LTIP 2015[2]	Pension 2015[3]	Total for 2015
Amjad Bseisu	430	1	262	95	40	828
Jonathan Swinney	280	1	334	58	30	703
Total	**710**	**2**	**596**	**153**	**70**	**1,531**

	2014 'single figure' of remuneration – £000s					
Director	Salary and fees 2014	All taxable benefits 2014	Annual bonus 2014[1]	LTIP 2014[4]	Pension 2014[3]	Total for 2014
Amjad Bseisu	430	1	236	110	40	817
Jonathan Swinney	280	1	228	72	30	611
Total	**710**	**2**	**464**	**182**	**70**	**1,428**

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 29 April 2013 vested on 29 April 2016. The LTIP value shown in the 2015 single figure is calculated by taking the number of performance shares that have vested (76.6% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2015 and 31 December 2015, as the share price on 29 April 2016 was not known at the time of this report.
3 Cash in lieu of pension and other benefits.
4 PSP awarded on 19 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 share price on that date. The equivalent number in the 2014 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 2015 was not known at the time of that report.

The remuneration of the Non-Executive Directors for the years 2014 and 2015 is made up as follows:

	2015 'single figure' of remuneration – £000s		
Director	Salary and fees 2015	All taxable benefits 2015	Total for 2015
Dr James Buckee	220	–	220
Helmut Langanger	70	–	70
Jock Lennox	60	–	60
Clare Spottiswoode	50	–	50
Philip Nolan	50	–	50
Philip Holland[1]	21	–	21
Total	**471**	**–**	**471**

Note:
1 Philip Holland was appointed with effect from 1 August 2015. His fees are £50,000 p.a. in line with the other Non-Executive Directors and the figure shown reflects the pro-rated amount earned during 2015.

	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
Philip Nolan	50	–	50
Philip Holland	0	–	0
Total	**450**	**–**	**450**

Directors' Remuneration Report continued

Annual bonus

The Executive Directors' performance bonus for 2015 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.

Performance contract EnQuest (Amjad Bseisu)

					Performance outcome			
Category	Weighting	Measure	Target	Result	Below threshold	On target	At or above stretch	Payout as a % of target
Financial	20%	EBITDA	$450m	$465m		✓		120%
		Opex/BOE	$38/bbl	$29.7bbl			✓	
		Capex	$700m	$738m		✓		
		General and administrative costs	Commercially sensitive			✓		
Production	25%	2015 Production	33-36 kboepd	36.6 kboepd		✓		120%
Reserves	5%	Net 2P Reserve additions	0 MMboe	-4 MMboe	✓			0%
Alma/Galia	20%	Start-up date	July 2015	October 2015	✓			0%
Kraken	20%	Project progress	Various	On schedule and under budget		✓		120%
Share price	10%	Absolute performance	+40%	-46%	✓			0%
HSE&A	Override	Basket of leading and lagging indicators	Various	✓		✓		100%

Performance contract Jonathan Swinney

			Performance outcome		
Category	Weighting	Measure	Below threshold	On target	At or above stretch
Financial	20%	EBITDA		✓	
		Opex/BOE			✓
		Capex		✓	
		General and administrative costs		✓	
Organisation	20%	Finance team capability			✓
Group Financing	50%	Bond covenants			✓
		Additional liquidity			✓
		Disposal of office building		✓	
Shareholder	10%	Increase in new or current shareholders		✓	

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

Name	**Annual bonus for 2015**	% of base salary	% of maximum
Amjad Bseisu	**£261,600**	61%	27%
Jonathan Swinney	**£334,000**	119%	53%

Two-thirds of the amounts above have been paid in cash in March 2016. 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 2013 PSP award completed on 31 December 2015 and the award vested in April 2016. The results of the performance conditions for the 2013 PSP award are as follows:

			Performance conditions and weighting			
Grant date	Vesting date	Performance period	EnQuest TSR	Production	Reserves	Total award
29 Apr 2013	29 Apr 2016	1 Jan 2013 – 31 Dec 2015	33.4%	33.3%	33.3%	100%
Base level			–	22,802 Boepd	128.5 MMboe	
Threshold			Median (17th position)	26,396 Boepd	141.4 MMboe	
Maximum			Upper quartile (9th position)	30,349 Boepd	192.8 MMboe	
Actual performance achieved			Median (15th position)	36,567 Boepd	216 MMboe	
Percentage meeting performance conditions and total vest			10.0%	33.3%	33.3%	76.6%

The table below shows the number of nil cost options awarded in April 2013 that vested in April 2016 and their value at 31 December 2015. This figure is calculated taking the average closing share price on each day of the period 1 October 2015 – 31 December 2015 and is used as the basis for reporting the 2015 'single figure' of remuneration.

Name	No. of shares	Portion vesting	No. of shares vesting	Average share price	Value at 31 Dec 2015 £'000s
Amjad Bseisu	490,000	76.6%	375,340	£0.2525	95
Jonathan Swinney	300,000		229,800		58

2016 PSP awards

After due consideration of business performance in 2015, the Remuneration Committee will award the Executive Directors the following performance shares in April 2016.

The levels of awards reflect 156% of salary (78% of the normal maximum).

	Face value (% of salary)	Face value as at 31 Dec 2015	Performance period
Amjad Bseisu	156%	£670,800	1 Jan 2016 – 31 Dec 2018
Jonathan Swinney	156%	£436,800	1 Jan 2016 – 31 Dec 2018

Summary of performance measures and targets

The 2010 PSP share awards granted in April 2016 have three sets of performance conditions associated with them, over a three year financial performance period:

- 50% of the award relates to TSR against a comparator group of 17 oil and gas companies listed on the FTSE 350 (excluding Majors), FTSE All-Share, AIM Top 150 and Stockholm NASDAQ OMX;
- 40% relates to production growth per share; and
- 10% relates to new 2P reserve additions.

PSP vesting schedule

	Relative TSR		Production growth per share (over three years)		New 2P reserve additions (over three years)	
	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	Less than 10% C.A.G.*	0%	Less than 5% C.A.G.*	0%
Threshold**	Median	25%	10% C.A.G.	25%	5% C.A.G.	25%
Maximum**	Upper quartile	100%	20% C.A.G.	100%	10% C.A.G.	100%

* Compound Annual Growth
** Linear between threshold and maximum

Directors' Remuneration Report continued

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
2016	36,567 Boepd	216 MMboe

The comparator group companies for the TSR performance condition relating to the 2015 PSP award granted in April 2016 are as follows:

FTSE 350	FTSE All-Share	FTSE AIM – Top 150	Stockholm NASDAQ OMX
Cairn Energy	Exillion	Amerisur Resources	Africa Oil
Nostrum Oil & Gas	Premier Oil	Faroe Petroleum	Blackpearl Resources
Ophir Energy	Soco International	Ithaca Energy	Lundin Petroleum
Tullow Oil		Pantheon Resources	Petrosibir
		Quadrise Fuels	Tethys Oil

The number of PSP awards outstanding as at 31 December 2015 are as follows:

	No. of shares awarded	Performance period	Performance conditions (and weighting)	Vesting date
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%)	
Grant date – March 2015			TSR (30%)	
Amjad Bseisu	1,272,500	1 Jan 2015 – 31 Dec 2017	Production growth (50%)	27 March 2018
Jonathan Swinney	825,000		Reserves additions (20%)	

Pension and benefits

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

Statement of Directors' shareholding and share interests

The interests of the Directors in the share capital of the Company as at 31 December 2015 are shown below:

RSP	31 December[1] 2014	Granted	Vested	Lapsed	31 December 2015	Vesting period	Expiry date
Amjad Bseisu	804,531	–	804,532	–	1,609,063	1 Apr 2012 – 1 Apr 2014	31 March 2020
	295,662	–	295,662	–	591,324	19 Apr 2012 – 19 Apr 2014	18 April 2020
Jonathan Swinney	268,176	–	268,178	–	536,354	1 Apr 2012 – 1 Apr 2014	31 March 2020
	81,693	–	81,694	–	163,387	19 Apr 2012 – 19 Apr 2014	18 April 2020

Note:
1 Nil cost shares under the RSP vested in April 2012, April 2013 and October 2015 (once Alma/Galia came onstream) but were not exercised. They were rolled over in line with the plan rules.

PSP	31 December 2014	Granted	Vested[1]	Lapsed	31 December 2015	Vesting period	Expiry date
Amjad Bseisu	583,090	–	388,726	194,364	388,726	19 Apr 2011 – 19 Apr 2014	18 April 2021
	391,790	–	311,081	80,709	311,081	19 Apr 2012 – 19 Apr 2015	18 April 2022
	490,000[2]	–	–	–	490,000	29 Apr 2013 – 29 Apr 2016	28 April 2023
	604,990	–	–	–	604,990	22 Apr 2014 – 22 Apr 2017	22 April 2024
	–	1,272,500	–	–	1,272,500	27 Mar 2015 – 27 Mar 2018	27 March 2025
Jonathan Swinney	324,975	–	216,650	108,325	216,650	19 Apr 2011 – 19 Apr 2014	18 April 2021
	254,663	–	202,202	52,461	202,202	19 Apr 2012 – 19 Apr 2015	18 April 2022
	300,000[2]	–	–	–	300,000	29 Apr 2013 – 29 Apr 2016	28 April 2023
	368,147	–	–	–	368,147	22 Apr 2014 – 22 Apr 2017	22 April 2024
	–	825,000	–	–	825,000	27 Mar 2015 – 27 Mar 2018	27 March 2025

Note:
1 Nil cost shares under the PSP vested in April 2014 and October 2015 (once Alma/Galia came onstream) but were not exercised. They were rolled over in line with the plan rules.
2 As shown on p71, 76.6% of this award will vest on 29 April 2016.

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 satisfactory achievement of the performance conditions. 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 was rescinded upon the successful start-up of the Alma/Galia field in October 2015.

The interests of Directors in the Ordinary shares of the Company

	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	Vested but not exercised under the PSP	Total at 31 Dec 2015
Amjad Bseisu	71,405,331	3155%	2,367,490	2,200,387	699,807	76,673,047
Jonathan Swinney	62,033	4%	1,493,147	699,741	418,852	2,673,773
Dr James Buckee	3,936,949					3,936,949
Helmut Langanger	200,000					200,000
Jock Lennox	20,000					20,000
Clare Spottiswoode	19,560					19,560
Philip Nolan	150,000					150,000
Philip Holland	74,999					74,999

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 AIM All Share-Oil & Gas, also measured by total shareholder return.

Note:
Rebased to 100.

Directors' Remuneration Report continued

Historical Chief Executive pay

The table below sets out details of the Chief Executive's pay for the current year and the previous five 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 69.

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

	£000s					
	2010	2011	2012	2013	2014	**2015**
'Single figure' of total remuneration	3,004	731	910	1,361	817	**828**
Annual bonus as a % of maximum	80%	42%	60%	50%	24%	**27%**
Long-term incentive vesting rate as a % of maximum	–	–	–	67%	79%	**77%**

Notes:
1 Company was formed on 5 April 2010. 2010 was a partial year.
2 2010 'Single Figure' includes the value of RSP awards made at the time of IPO which vested on, or after, the 2nd, 3rd and 4th anniversaries of grant.
3 The 2014 '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	2014 US$000	**2015 US$000**
EBITDA	581	**465**
Distribution to shareholders	0	**0**
Total employee pay	107	**99**

How the Chief Executive's pay relates to the workforce

	Base Salary £000	Bonus £000	Benefits £000
Change between 2014 and 2015	%	%	%
Amjad Bseisu	0%	11%	0%
All employees (average)	0.1%	5%	0%

Statement of implementation of remuneration policy in 2015

Base salary and 2016 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 2016:

Name	Salary for 2015	Salary for 2016	% increase
Amjad Bseisu	£430,000	£430,000	0.0%
Jonathan Swinney	£280,000	£280,000	0.0%

Annual bonus

The annual bonus scheme for 2016 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 2016 metrics and weightings, which will determine the level of short-term incentive awards for the Directors are set out below:

Company 2016 performance measures scorecard

Category	Weighting
Financial targets	30%
Net debt	20%
Production	30%
Kraken	20%

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 2016 performance measures scorecard is the same as the Company scorecard.

Jonathan Swinney 2016 performance measures scorecard	Weighting
Financial results	20%
Net debt	20%
Group financing	60%

The choice of performance targets for 2016, 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
Target annual bonus	Stretch performance	1.2–1.5	Exceed target	1.2–1.5
	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

Consideration by the Directors of matters relating to Directors' remuneration

During 2015, 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 £22,130 (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 27 May 2015. The Group is committed to ongoing 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 cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report	364,068,292	90.732%	37,188,981	9.268%	401,257,273	48,479,267

Helmut Langanger
Chairman of the Remuneration Committee
16 March 2016

Nomination Committee Report

"I am pleased to report that the review found the Board to be well governed and functional."

Dear Shareholder

I am pleased to present to you the report of the work of the Nomination Committee during 2015.

We were delighted to welcome Philip Holland to the Board in August, having recommended his appointment following a robust recruitment process which we outlined in our 2014 report. Philip immediately undertook an effective induction programme to ensure that he would become a valued contributor to our Board and Committees as quickly as possible.

A further significant area of work undertaken by the Nomination Committee during 2015 was an external evaluation of the Board's effectiveness. I am pleased to report that the review found the Board to be functional and well governed and some of the specific outcomes are incorporated within this report.

The core 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 six 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 2015 the Board has been further strengthened by bringing in significant experience of capital projects via the appointment of Philip Holland. The Committee has spent additional time during the last year on succession planning for the Board; including planning the phasing of specific retirements of the Non-Executive Directors, ensuring their continued independence, and also considering diversity issues.

As well as looking at the composition of the Board in its entirety, the Committee also undertook particularly rigorous reviews of those Directors who had reached their sixth anniversary. Helmut Langanger, Jock Lennox, and I all underwent reviews in accordance with the UK Corporate Governance Code (the 'Code').

Over the next few years we shall continue to focus on succession planning of both the Executive and Non-Executive Directors, to ensure that we have effective 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
16 March 2016

Nomination Committee membership

During 2015, the Nomination Committee membership was compressed following a recommendation from the externally facilitated Board effectiveness review that membership of Board Committees should be limited.

The revised 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
Helmut Langanger	16 March 2010	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 Committee's 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.

Committee activities during the year

The Nomination Committee met once in 2015 and its key activities included:

- **Succession planning** – The Committee focused on succession planning in order to specifically ensure that effective planning is being undertaken in regard to the phasing of Non-Executive Director retirements. The Company will reach its ninth anniversary in 2019 and work is currently underway to ensure that proper planning is in place so that all Non-Executive Directors are independent. 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 during this period to identify any potential gaps, the results of which are outlined below. We are pleased to report that following the appointment of Philip Holland during 2015, 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. During 2016, the Committee will commence the search for a future Chair of the Audit Committee in order that the Board has the necessary skills and experience in place to facilitate an effective transition from the current Committee Chairman upon retirement.

- **Establishment of a Risk Committee** – During the year, the Board adopted a recommendation to create a Risk sub-Committee. The role of the Committee will be to advise the Board on the Company's overall risk appetite, risk exposures and future risk strategy, oversight of the Company's risk processes, and to monitor any large exposures and/or certain risk types.

Board skills and experience:	
Oil and gas experience	80%
Engineering	65%
Finance	20%
Capital markets	20%
Regulatory and governance	15%
HSE&A	70%
Operational and strategic	95%

Priorities for the coming year

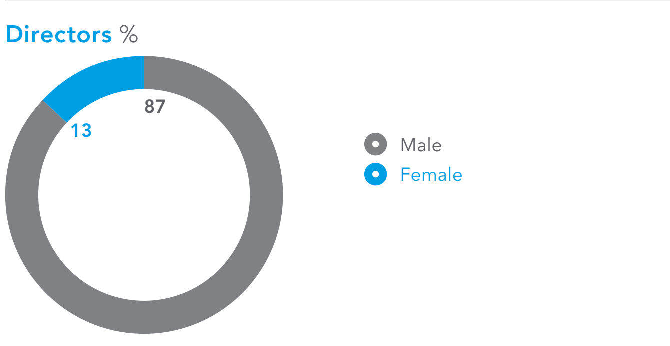
The main focus of the Committee in 2016 will be to actively manage the succession of the Non-Executive Directors to ensure that they continue to be independent and of the highest possible calibre. The Company is in the process of appointing a reputable executive search firm, to support the identification of suitably qualified candidates that can contribute strategically to the Board based upon their skills, leadership and experience.

Other priorities include continuing to review the effectiveness of senior management in ensuring that the Company's organisation has both the necessary capacity and capabilities in delivering its principal activities.

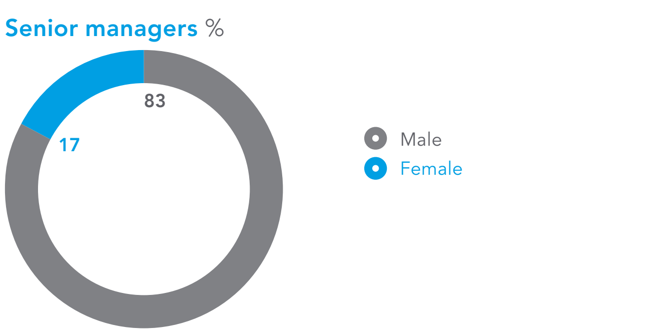
Nomination Committee Report
continued

Boardroom diversity
The Board continues to follow the progress made with regard to the recommendations of the 2011 Lord Davies report 'Women on Boards', and took these into account when developing our policy on gender diversity. Currently the Board consists of two Executive Directors and six Non-Executive Directors. Seven of the members are male and one is female. The Board's policy continues to be that while we will 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.

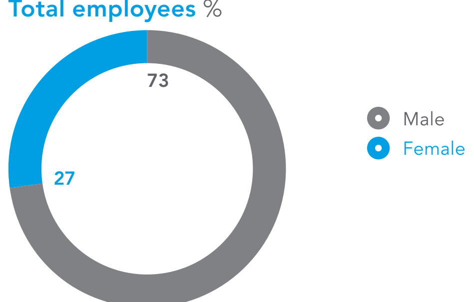
Directors %



Senior managers %



Total employees %



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 48 and 49.

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' interest provisions in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. The Board monitors and reviews potential conflicts of interest on a regular basis.

Directors' Report

The Directors of EnQuest present their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2015. These will be laid before shareholders at the AGM to be held on Wednesday 1 June 2016.

Future developments

A summary of the future developments of the Company is 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 54 to 57.

Results and dividends

The Group's financial statements for the year ended 31 December 2015 are set out on pages 82 to 131.

The Company has not declared or paid any dividends since incorporation on 29 January 2010 and does not have any 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 48 and 49. All the current Directors served throughout the year, except for Philip Holland, who was appointed with effect from 1 August 2015.

All the Directors will offer themselves for election or re-election at the AGM on 1 June 2016, in accordance with the UK Corporate Governance Code provision for annual re-election of all the directors of FTSE 350 companies, except for Clare Spottiswoode who is not offering herself for re-election and will retire at the conclusion of the AGM. Philip Holland was appointed to the Board during the year and will therefore seek election by shareholders for the first time.

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.

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, EnQuest offers opportunities to disabled employees for training, career development and promotion. In the event of an existing employee becoming disabled, it is EnQuest's 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 2014	At 31 December 2015	At 16 March 2016
Amjad Bseisu[1]	71,405,331	71,405,331	71,405,331
Dr James Buckee[2]	3,488,424	3,936,949	3,936,949
Helmut Langanger	0	200,000	200,000
Jock Lennox	20,000	20,000	20,000
Philip Nolan	150,000	150,000	150,000
Clare Spottiswoode	19,560	19,560	19,560
Jonathan Swinney	62,033	62,033	62,033
Philip Holland	n/a	74,999	74,999

Notes:

1. The shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest.
2. The total number of shares held are comprised of shares held directly by Dr James Buckee, shares held by The Buckee Family Settlement and shares held by The Buckee Family No.2 Trust, discretionary trusts in which the extended family of Dr James Buckee 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 17 to the financial statements on page 117. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2015 or up to and including 16 March 2016, being the date of this Directors' Report.

Company share schemes

The trustees of the Group Employee Benefit Trust (the 'Trust') did not purchase any Ordinary shares in the Company during 2015. At year end, the Trust held 3.33% of the issued share capital of the Company (2014: 3.69%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

Directors' Report continued

Substantial interests in shares

The table below shows the holdings in the Company's issued share capital, which had been notified to the Company in accordance with Chapter 5 of the DTR:

Name	Number of Ordinary shares held at 31 December 2015	% of issued share capital held at 31 December 2015	Number of Ordinary shares held as at 16 March 2016	% of issued share capital held as at 16 March 2016
Amjad Bseisu Family[1]	71,405,331	8.90	71,405,331	8.90
Aberdeen Asset Managers Limited	56,474,766	7.04	56,345,766	7.02
Baillie Gifford & Co Ltd	55,079,552	6.86	53,565,262	6.67
Aberforth Partners	36,018,915	4.49	53,368,915	6.65
Swedbank Robur Fonder AB	42,646,187	5.31	40,073,639	4.99
Schroders Plc	33,056,199	4.12	35,628,700	4.44
EnQuest Employee Benefit Trust	26,702,378	3.33	26,656,176	3.32

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 1 June 2016. 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 145.

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 ('FPF');
- Kittiwake;
- Enquest Producer FPF;
- PM8/Seligi & Tanjong Baram (Malaysia);
- 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.

Note: All assets within operational control are reported for MCR purposes. Due to source data not being readily available for verification, all Malaysian assets (PM8/Seligi, Tanjong Baram assets and associated land based offices) are reported outside the scope of ISO 14064-1 verification.

MCR reporting year 2015 (1 January – 31 December inclusive)

	Including Malaysia	Excluding Malaysia
Emissions tCO_2e	862,496	621,588
Intensity ratio $kgCO_2e$/BOE	45.63	47.18

Where BOE = barrel of oil equivalent.

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. As indicated above, Malaysia is not included within the ISO 14064-1 verification scope.

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 the Company undergoes 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 27 to the financial statements on page 131.

Directors' statement of disclosure of information to auditor

The Directors in office at the date of the approval of this Directors' Report have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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, Ernst & Young LLP ('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 40 to 45 and the notes to the financial statements on pages 127 to 130 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 47. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 40 to 45. In addition, note 26 to the financial statements on pages 127 to 130 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 16 March 2016.

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 position and performance, business model and strategy, and making a statement to that effect. This statement is set out on page 57 of the Annual Report.

Independent Auditor's Report to the Members of EnQuest PLC
(Registered Number: 07140891)

Our opinion on the financial statements
In our opinion:
- EnQuest PLC's Group financial statements (the 'financial statements') give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the EnQuest PLC's parent Company financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2015;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Principles including FRS101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
EnQuest PLC's financial statements comprise:

Group	Parent Company
Group Statement of Comprehensive Income for the year ended 31 December 2015	Company Balance sheet as at 31 December 2015
Group Balance Sheet as at 31 December 2015	Company Statement of Changes in Equity at 31 December 2015
Group Statement of Changes in Equity at 31 December 2015	Company Statement of Cash Flows for the year ended 31 December 2015
Group Statement of Cash Flows for the year ended 31 December 2015	Notes 1 to 15 to the financial statements
Notes 1 to 28 to the Group financial statements for the year ended 31 December 2015	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) 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 financial statements is applicable law and UK General Accepted Accounting Principles and in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement	• Going concern • Impairment of the carrying value of tangible and intangible assets (including goodwill) • Estimates of Oil & Gas reserves • Complexity of the deferred taxation calculation
Audit scope	• We performed an audit of the complete financial information of two components (North Sea and Malaysia) • The components where we performed full or specific audit procedures accounted for 100% of Loss before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall Group materiality of $9m which represents 2% of earnings before interest, taxation, depreciation and amortisation (EBITDA).

Our assessment of risk of material misstatement
We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Independent Auditor's Report to the Members of EnQuest PLC continued

(Registered Number: 07140891)

Risk	Our response to the risk	What we concluded to the Audit Committee
Going concern (including the effect of oil prices, bank covenants and projections) *Refer to the Audit Committee Report (page 59); Accounting policies (page 95); and Note 2 of the Annual Report and Accounts (page 95).* With the current low oil price environment, coupled with the current bank facility and retail bond covenants, there is a heightened awareness around going concern, in particular future projections of cash flows, oil prices and reserves. The risk has increased in the current year due to the sustained low oil prices through the period, the continued capital expenditure on major projects and the limits on currently available borrowing facilities.	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; • auditing key assumptions used by management including oil price, production, future cost projections and reserves; • assessing and auditing the sensitivities of the underlying assumptions used in the going concern review and considering whether management has exercised any bias in selecting such assumptions; • auditing the assumption and mitigating factors that management have made with regards to potential actions to mitigate forecast liquidity shortfalls in future periods; and • comparing future cash flows to historical data, ensuring variations are in line with our expectations and considering the reliability of past forecasts.	In our view management's conclusion that EnQuest PLC is a going concern is appropriate. Management have undertaken a detailed analysis and considered appropriately challenging scenarios in making this conclusion. We have also concluded that management have made appropriate disclosures discussing the risks and assumptions associated with this conclusion.
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment (Fraud Risk) *Refer to the Audit Committee Report (page 59); Accounting policies (page 97); and Note 2 of the Annual Report and Accounts (page 97).* The estimation of oil and gas reserves requires significant judgment and assumptions by management and engineers which could be manipulated to achieve desired results. These estimates have a material impact on the financial statements, particularly impairment testing; depreciation, depletion and amortisation; decommissioning provisions and going concern. There is technical uncertainty in assessing reserve quantities and complex contractual arrangements dictating EnQuest's share of reserves, particularly the PSAs and RSAs and joint venture arrangements in place. We will focus on management's estimation process including whether bias exists in the determination of reserves and resources. The risk has remained the same compared to last year.	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 competence of internal specialists and the competence and objectivity of 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 2015. We considered whether management had exercised any bias in assumption used or the outputs produced by the reserves estimation exercise. 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.	We have concluded that the estimation of oil and gas reserves are in line with appropriate methodology and guidelines, and have been determined on a reasonable basis through the use of competent internal experts and objective and competent external parties.

Risk	Our response to the risk	What we concluded to the Audit Committee
Impairment of the carrying value of tangible ($2,437 million) and intangible assets (including goodwill) ($236 million) *Refer to the Audit Committee Report (page 60); Accounting policies (page 99); and Notes 10, 11 and 12 of the Annual Report and Accounts (pages 113 to 115).* The fall in forward oil and gas prices creates an indicator of impairment, which potentially could impact the carrying values of the assets. Accounting standards require management to assess whether indicators of impairment exist. Where indicators exist management must carry out an impairment test. The risk has remained the same compared to last year where falling prices also resulted in impairment charges being recorded.	The principal indicator of impairment was the decline in the forward oil price. 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. 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, comparison to historical data and past reliability of forecasts, including considering whether management had used bias in setting assumptions to achieve a certain outcome. We also used the result of procedures performed in relation to estimation of oil and gas reserves and depletion calculations. We performed full and specific scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.	There are a number of factors which have an impact on the impairment charge. The impairment charge recorded is particularly sensitive to both future oil prices and discount rates. In our view the combination of price and discount rate assumptions used by management are appropriate given current market conditions. In addition, the future cost assumptions and production profiles are appropriate. Consequently, we believe the impairment charge of $1,224 million is also appropriate and intangible assets ($2 million) is also appropriate.

Independent Auditor's Report to the Members of EnQuest PLC continued
(Registered Number: 07140891)

Risk	Our response to the risk	What we concluded to the Audit Committee
Complexity of the deferred taxation calculation Deferred Tax expense $593 million (2014: $408 million); Deferred Tax Assets $139 million (2014: $41 million); and Deferred Tax Liabilities $59 million (2014: $517 million) *Refer to the Audit Committee Report (page 60); Accounting policies (page 103); and Note 7 of the Annual Report and Accounts (page 111).* The calculation of the deferred tax balances, particularly given the recent change in oil and gas taxation legislation in relation to investment allowances (previously field allowances), involves complex estimates which increase the risk of incorrectly recording deferred tax. The risk has increased in the current year due to the increased complexity relating to investment allowances and was not previously included within our report.	We carried out procedures to understand and walkthrough EnQuest PLC's tax accounting process including the approach to calculating deferred tax. We made enquiries of appropriate personnel to understand the process undertaken to calculate deferred tax and any assumptions/ changes in the approach during the year. We obtained and audited the deferred tax calculation to agree the clerical accuracy, ensured that the assumptions used were in line with expectations and that the calculation and recognition was in line with IAS 12. We performed analytical review procedures and understood any significant movements that were not consistent with our expectations. We challenged and audited support for the recoverability of material deferred tax assets. We considered management's interpretation and application of relevant tax law and challenged the appropriateness of management's assumptions and estimates in relation to deferred taxation and 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. We performed full and specific scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.	No issues have been noted in relation to the calculation of deferred taxation amounts and the recoverability of deferred tax assets.

In the prior year, our auditor's report included a risk of material misstatement in relation to Decommissioning and Uncertain Tax Positions. This year we did not consider that these risks merited separate commentary in our report as, whilst remaining a risk of misstatement, we did not consider there to be a high likelihood of a material misstatement.

The scope of our audit

Tailoring the scope

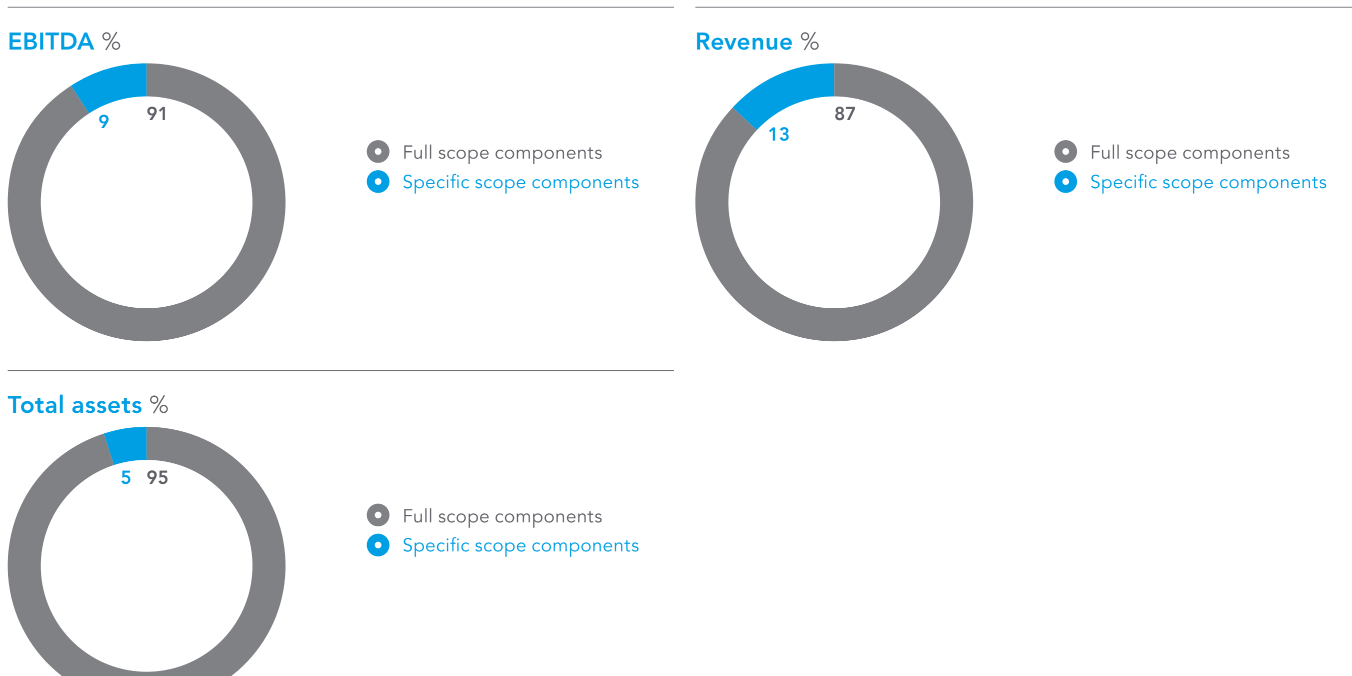
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the two reporting components of the Group, we selected both components covering entities within the United Kingdom and Malaysia, which represent the principal business units within the Group.

Of the two components selected, we performed an audit of the complete financial information of one component ('full scope components') which were selected based on their size or risk characteristics. For the remaining component ('specific scope component'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2014: 100%) of the Group's EBITDA, 100% (2014: 100%) of the Group's Revenue and 100% (2014: 100%) of the Group's Total assets. For the current year, the full scope components contributed 91% (2014: 98%) of the Group's EBITDA, 87% (2014: 95%) of the Group's Revenue and 95% (2014: 94%) of the Group's Total

assets. The specific scope component contributed 9% (2014: 2%) of the Group's EBITDA, 13% (2014: 5%) of the Group's Revenue and 5% (2014: 6%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.



Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the one full scope component, audit procedures were performed directly by the primary audit team. For the one specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

For the first time the Senior Statutory auditor visited Malaysia due to the increased activity levels. This visit involved discussing the audit approach with the component team, meeting with local management and attending a planning meeting with local management and the component team. The primary team interacted regularly with the component teams where appropriate during various stages of the audit including discussing any issues arising from their work, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $9 million (2014: $10.5 million), which is 2% (2014: 5%) of EBITDA (2014: business performance before taxation). We believe that EBITDA provides us with the most appropriate basis to use as this is the key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the company's debt and is the measure most focussed on by stakeholders. In prior years we have used profit before tax (PBT) as a basis for materiality and we considered this for 2015. With the impact of falling prices in the oil and gas industry PBT is becoming more volatile and the focus for stakeholders (based on communications to the market) has been increasingly based on more cash based measures as pressure grows on companies in the lower oil price environment.

Independent Auditor's Report to the Members of EnQuest PLC continued
(Registered Number: 07140891)

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely $4.5m (2014: $5.25m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $4m to $0.9m (2014: $5.25m to $1m).

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

We collated errors in excess of $0.45m, which is set at 5% of planning materiality, and we agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.75m (2014: $0.75m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 82, 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.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement, set out on page 81, in relation to going concern; and • the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	The Directors have included appropriate disclosures setting out the basis of the going concern assumption and the prospects of the entity, the conclusion drawn and the actions required.

Paul Wallek (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2016

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 2015

	Notes	2015 Business performance US$'000	2015 Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4) US$'000	2015 Reported in year US$'000	2014 Business performance US$'000	2014 Depletion of fair value uplift, re-measurements, impairments and other exceptional items (note 4) US$'000	2014 Reported in year US$'000
Revenue and other operating income	5(a)	**906,582**	**1,932**	**908,514**	1,009,884	18,611	1,028,495
Cost of sales	5(b)	**(733,408)**	**(15,130)**	**(748,538)**	(654,061)	(57,797)	(711,858)
Gross profit/(loss)		**173,174**	**(13,198)**	**159,976**	355,823	(39,186)	316,637
Exploration and evaluation expenses	5(c)	**(325)**	**(9,059)**	**(9,384)**	(4,033)	(151,982)	(156,015)
Impairment of investments	4	**–**	**(566)**	**(566)**	–	(1,316)	(1,316)
Impairment of oil and gas assets	4	**–**	**(1,224,463)**	**(1,224,463)**	–	(678,801)	(678,801)
Negative goodwill	4	**–**	**–**	**–**	–	28,630	28,630
Loss on disposal of land and buildings	4	**–**	**(8,473)**	**(8,473)**	–	–	–
Loss on disposal of intangible oil and gas assets	4	**–**	**(2,264)**	**(2,264)**	–	2,019	2,019
General and administration expenses	5(d)	**(14,371)**	**(3,611)**	**(17,982)**	(16,464)	–	(16,464)
Other income	5(e)	**15,431**	**1,936**	**17,367**	27,176	–	27,176
Other expenses	5(f)	**–**	**(29,635)**	**(29,635)**	–	–	–
Profit/(loss) from operations before tax and finance income/(costs)		**173,909**	**(1,289,333)**	**(1,115,424)**	362,502	(840,636)	(478,134)
Finance costs	6	**(176,384)**	**(50,097)**	**(226,481)**	(121,066)	18,698	(102,368)
Finance income	6	**964**	**–**	**964**	1,814	–	1,814
Profit/(loss) before tax		**(1,511)**	**(1,339,430)**	**(1,340,941)**	243,250	(821,938)	(578,688)
Income tax	7	**129,328**	**452,128**	**581,457**	(105,841)	508,120	402,279
Profit/(loss) for the year attributable to owners of the parent		**127,817**	**(887,302)**	**(759,484)**	137,409	(313,818)	(176,409)
Other comprehensive income for the year, after tax:							
Cash flow hedges:							
Reclassified to profit or loss	20			**(244,445)**			–
May be reclassified subsequently to profit or loss when specific conditions are met	20			**356,540**			156,281
Deferred tax on gain on cash flow hedges	7			**(37,283)**			(96,894)
Available-for-sale financial assets	13			**–**			(398)
Total other comprehensive income for the year				**74,812**			58,989
Total comprehensive income for the year, attributable to owners of the parent				**(684,672)**			(117,420)
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.165**		**(0.980)**	0.178		(0.228)
Diluted		**0.165**		**(0.980)**	0.178		(0.228)

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

Group Balance Sheet
At 31 December 2015

	Notes	2015 US$'000	2014 Restated US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,436,672**	3,279,739
Goodwill	11	**189,317**	189,317
Intangible oil and gas assets	12	**46,530**	65,710
Investments	13	**123**	689
Deferred tax assets	7	**138,525**	40,401
Other financial assets	20	**15,262**	18,809
		2,826,429	3,594,665
Current assets			
Inventories	14	**67,629**	89,397
Trade and other receivables	15	**351,873**	286,227
Current tax receivable		**3,666**	11,199
Cash and cash equivalents	16	**269,049**	176,791
Other financial assets	20	**258,692**	100,932
		950,909	664,546
TOTAL ASSETS		**3,777,338**	4,259,211
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**113,433**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**134,199**	59,387
Share-based payment reserve		**(11,995)**	(17,696)
Retained earnings		**(231,293)**	528,191
TOTAL EQUITY		**667,199**	1,346,170
Non-current liabilities			
Borrowings	19	**907,073**	227,035
Bonds	19	**870,281**	882,561
Obligations under finance leases	24	**–**	36
Provisions	22	**686,577**	719,702
Other financial liabilities	20	**7,684**	23,694
Deferred tax liabilities	7	**59,198**	516,740
		2,530,813	2,369,768
Current liabilities			
Borrowings	19	**10,150**	–
Bonds	19	**12,319**	12,689
Trade and other payables	23	**543,518**	429,070
Obligations under finance leases	24	**36**	36
Other financial liabilities	20	**9,169**	101,478
Current tax payable		**4,134**	–
		579,326	543,273
TOTAL LIABILITIES		**3,110,139**	2,913,041
TOTAL EQUITY AND LIABILITIES		**3,777,338**	4,259,211

The attached notes 1 to 28 form part of these Group financial statements.
The financial statements on pages 90 to 131 were approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

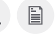
Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity
At 31 December 2015

	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 2014 (restated)[(i)]	113,433	662,855	–	398	(10,280)	704,600	1,471,006
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	–	–	–	–	8,468	–	8,468
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(15,884)	–	(15,884)
At 31 December 2014 (restated)[(i)]	**113,433**	**662,855**	**59,387**	**–**	**(17,696)**	**528,191**	**1,346,170**
Loss for the year	–	–	–	–	–	(759,484)	(759,484)
Other comprehensive income	–	–	74,812	–	–	–	74,812
Total comprehensive income for the year	–	–	74,812	–	–	(759,484)	(684,672)
Share-based payment	–	–	–	–	5,701	–	5,701
At 31 December 2015	**113,433**	**662,855**	**134,199**	**–**	**(11,995)**	**(231,293)**	**667,199**

(i) Opening retained earnings has been decreased by an amount of $13,703,000 related to the recognition of a deferred tax liability which arose in 2012 in respect of the KUFPEC farm-out receivable. The balance of deferred tax liabilities as at 31 December 2014 has been increased by a corresponding amount.

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



Group Statement of Cash Flows
For the year ended 31 December 2015

	Notes	2015 US$'000	2014 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(1,340,941)**	(578,688)
Depreciation	5(d)	**7,017**	7,438
Depletion	5(b)	**302,687**	244,531
Exploration costs impaired and written off	5(c)	**9,059**	152,550
Impairment of oil and gas assets	4	**1,224,463**	678,801
Loss on disposal of land and buildings	4	**8,473**	–
Write down of receivable	4	**4,350**	–
Write down of inventory	4	**13,598**	–
Loss on disposal of intangible oil and gas assets	4	**2,264**	(2,019)
Impairment on available-for-sale investments	4	**566**	1,316
Negative goodwill	4	**–**	(28,630)
Share-based payment charge	5(g)	**5,701**	8,468
Unwinding of discount on decommissioning provisions	6	**17,034**	12,093
Unwinding of other discount	6	**5,019**	–
Change in deferred consideration	22	**2,307**	–
Change in surplus lease provision	22	**26,560**	–
Hedge accounting deferral	20	**(119,055)**	–
Amortisation of option premiums	20	**(111,572)**	(6,820)
Unrealised gains on financial instruments	5(a)(b)	**(3,907)**	5,373
Unrealised exchange gains	5(e)	**(15,030)**	(27,176)
Net finance costs	6	**203,465**	88,461
Operating profit before working capital changes		**242,058**	555,698
(Increase)/decrease in trade and other receivables		**(76,429)**	91,384
Decrease/(increase) in inventories		**10,085**	(41,748)
Increase in trade and other payables		**45,980**	26,877
Cash generated from operations		**221,694**	632,211
Cash received on sale of financial instruments		**29,571**	100,126
Decommissioning spend		**(5,342)**	(7,177)
Income taxes paid		**(1,370)**	(12,503)
Net cash flows from operating activities		**244,553**	712,657
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(806,965)**	(990,563)
Purchase of intangible oil and gas assets		**(19,600)**	(69,749)
Proceeds from disposal of land and buildings		**68,425**	–
Proceeds from disposal of intangible oil and gas assets		**7,065**	2,162
Acquisitions		**(3,000)**	(58,233)
Prepayment of finance lease		**–**	(100,000)
Interest received		**419**	936
Net cash flows used in investing activities		**(753,656)**	(1,215,447)

Group Statement of Cash Flows continued
For the year ended 31 December 2015

	2015 US$'000	2014 US$'000
FINANCING ACTIVITIES		
Proceeds from bank facilities	**736,058**	42,034
Repayment of bank facilities	**(48,491)**	–
Proceeds from bond issue	**–**	650,000
Shares purchased by Employee Benefit Trust	**–**	(15,884)
Repayment of obligations under finance leases	**(35)**	(35)
Interest paid	**(76,120)**	(43,582)
Other finance costs paid	**(15,191)**	(23,049)
Net cash flows from financing activities	**596,221**	609,484
NET INCREASE IN CASH AND CASH EQUIVALENTS	**87,118**	106,694
Net foreign exchange on cash and cash equivalents	**(1,510)**	(7,571)
Cash and cash equivalents at 1 January	**171,932**	72,809
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**257,540**	171,932
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per cashflow statement	**257,540**	171,932
Restricted cash	**11,509**	4,859
Cash and cash equivalents per balance sheet	**269,049**	176,791

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

Notes to the Group Financial Statements

For the year ended 31 December 2015

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 and Malaysia.

The Group's financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2016.

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

2. Summary of significant accounting policies

Basis of preparation

The Group financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2015 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 2015.

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

Going concern concept

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and there are no material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. See page 44 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 34.

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 (OCI). If the contingent consideration is not within the scope of IAS 39, it is measured at fair value in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 2015. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. None of the improvements had any impact on the Group's financial statements nor accounting policies.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014. They had no impact on the Group's financial statements nor the accounting policies.

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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2015

2. Summary of significant accounting policies continued

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a 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 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016, it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases, as is required under IAS 17 and, instead, introduces a single lease accounting model. The Group will assess the impact of IFRS 16 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.

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.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have any impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets or disposal groups are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosure must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g. in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statements of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to the financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are 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.

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 oil and gas assets and goodwill

Determination of whether oil and gas assets or goodwill has suffered any impairment requires an estimation of the fair value less costs to dispose of the cash-generating units (CGU) to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cashflow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on forward curve prices for the first three years and thereafter at US$70 per barrel inflated at 2% per annum from 2020; discount rates derived from the Group's post-tax weighted average cost of capital of 8.45% (2014: 8.8%); commercial reserves and the related cost profiles. As the production and related cashflows can be estimated from EnQuest's experience, management believes that the estimated cashflows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

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% (2014: 2%) and an annual discount rate of 3% (2014: 3%).

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.

Going concern

The going concern assumption is highly sensitive to economic conditions. The Group closely monitors and manages its funding position and liquidity risk throughout the year including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

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.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

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

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

Classification and recognition of assets and liabilities
Non-current assets and non-current liabilities including provisions consist, for the most part, solely of amounts that are expected to be recovered or paid more than 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	20%
Fixtures and fittings	10%
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 tangible 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 amount 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. Exchanges of intangible oil and gas assets would be measured at cost.

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

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

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

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

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

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. Impairment losses relating to goodwill cannot be reversed in future periods.

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.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

2. Summary of significant accounting policies continued
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 for commodity derivatives and 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.

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.

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.

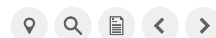
Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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.



Notes to the Group Financial Statements continued
For the year ended 31 December 2015

2. Summary of significant accounting policies continued

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 the income statement.

Rental income is accounted for on a straight line basis over the lease terms and is included in revenue in the income statement.

Exceptional items

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

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

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

The Directors have determined that for strategic investments it is important to identify separately the earnings impact of increased depletion arising from the acquisition date fair value uplifts made to property, plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the oil and gas industry the value attributed to strategic assets is subjective, based on a wide range of complex variables at a point in time. The subsequent depletion of the fair value uplifts 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.

Investment 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 investment allowances. Investment allowances are only triggered when production from the field commences. The Group is eligible for a number of investment allowances which will materially reduce the level of future supplementary corporation taxation. Investment 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 two significant operating segments, being the exploration for, extraction and production of hydrocarbons in the North Sea and Malaysia. Operations are located and managed by location, 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 this information is not presented.

Year ended 31 December 2015	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	528,181	117,231	–	645,412	263,102	908,514
Total Group revenue	**528,181**	**117,231**	**–**	**645,412**	**263,102**	**908,514**
Income/(expenses)						
Depreciation and depletion	(258,462)	(51,208)	(34)	(309,704)	–	(309,704)
Impairment of investments	(566)	–	–	(566)	–	(566)
Exploration write offs and impairments	(9,059)	–	–	(9,059)	–	(9,059)
Loss on disposal of assets	(10,737)	–	–	(10,737)	–	(10,737)
Impairment of oil and gas assets	(1,216,650)	(7,813)	–	(1,224,463)	–	(1,224,463)
Segment profit/(loss)	**(1,365,816)**	**(7,275)**	**(4,520)**	**(1,377,611)**	**36,670**	**(1,340,941)**
Other disclosures:						
Capital expenditure	**758,990**	**82,964**	**112**	**842,066**	**–**	**842,066**

Notes to the Group Financial Statements continued

For the year ended 31 December 2015

3. Segment information continued

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

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	924,800	53,335	–	978,135	50,360	1,028,495
Total Group revenue	**924,800**	**53,335**	**–**	**978,135**	**50,360**	**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**

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 2015 US$'000	Year ended 31 December 2014 US$'000
Segment (loss)/profit	**(1,377,611)**	(565,681)
Finance income	**964**	1,814
Finance expense	**(106,690)**	(79,713)
Gains and losses on derivatives	**142,396**	64,892
(Loss)/profit before tax	**(1,340,941)**	(578,688)

Revenue from three customers (2014: two customers) each exceed 10% of the Group's consolidated revenue and amounted respectively to US$257,653,000 and US$170,177,000 arising from sales of crude oil in the North Sea operating segment (2014: US$472,729,000 and US$347,900,000) and US$101,646,000 in Malaysia operating segment.

All non-current assets of the Group are located in the United Kingdom except for US$177,337,000 (2014: US$170,948,000) located in Malaysia and nil (2014: US$4,823,000) located in Egypt.

4. Depletion of fair value uplift, remeasurements, impairments and other exceptional items

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Recognised in arriving at profit/(loss) from operations before tax:		
Unrealised mark-to-market losses/(gains)	**45,341**	(19,224)
Write off and impairment of investments, oil and gas and exploration and evaluation assets	**1,234,088**	832,099
Loss/(gain) on disposal of assets	**10,737**	(2,019)
Write down of receivable and inventory	**17,948**	–
Depletion of fair value uplift (note 5(b))	**3,786**	6,869
Change in surplus lease provision (note 5(d), (f) & 6)	**26,625**	–
SVT tariff operator reconciliation (note 5(b))	**–**	32,843
Negative goodwill	**–**	(28,630)
Other	**905**	–
	1,339,430	821,938
Tax on items above	**(634,405)**	(508,120)
Change in tax rate	**(56,790)**	–
Reduction in the carrying amount of deferred tax assets	**239,067**	–
	887,302	(313,818)

Unrealised mark-to-market gains and losses
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.

In July 2015, contingent consideration which was receivable on the disposal of the Slovenian Petisovci asset to Ascent in 2011 was agreed to be converted into a convertible loan note. The fair value of the convertible loan note at 31 December 2015, is US$250,000 (2014: nil). The impact in the income statement net of foreign exchange is US$272,000 (note 5(e)). The loan note is due to mature in November 2016.

Two other oil price related embedded derivatives have been recognised in 2015 with a fair value at 31 December 2015 of US$30,000 (note 5(f)) (2014: nil).

Write off and impairment of investments, oil and gas assets and evaluation and exploration assets
In the year ended 31 December 2015, as part of the annual impairment review process, impairment triggers were highlighted which led to a US$1,224,463,000 (2014: US$678,801,000) impairment charge (refer to note 10).

Exploration assets were reviewed and this has led to an impairment of US$1,854,000 (2014: US$151,982,000) and a write off of US$7,205,000 (2014: nil) (refer to note 12).

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 2015 resulted in a non-cash impairment of US$566,000 (note 13), which was recognised in the income statement (2014: US$1,316,000).

Loss/(gain) on disposal of assets
In October 2015, the Group disposed of its Norwegian licences for US$2,065,000, resulting in a loss of US$2,264,000 (note 12). 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.

During the year ended 31 December 2015 the Group entered a sale and leaseback arrangement for the Aberdeen office. The loss of US$8,473,000 represents the difference between the sale proceeds of US$68,425,000 and the carrying value of the property.

Write down of receivable and inventory
Following EnQuest's exit from Tunisia, as at 31 December 2014 the Group had recorded a receivable of US$11,400,000 due from PA Resources (PAR). Since 27 March 2015, PAR has been in corporate reorganisation in accordance with the Swedish Company Reorganisation Act (1996:764). Since PAR commenced its reorganisation process, EnQuest negotiated a settlement agreement whereby in settlement of all amounts due from PAR, EnQuest will receive an amount held by PAR in Tunisia of TND13,771,642. EnQuest has security over the monies in this account, pending the approval of the Tunisian central Bank to convert these amounts into US Dollars and expatriate them out of Tunisia.

EnQuest has recognised a charge to the income statement totalling US$4,350,000 for the year ended 31 December 2015 which represents the difference between the value carried as at 31 December 2014 and the value of the bank account in Tunisian Dinars. The funds of US$6,782,000 are disclosed in the balance sheet at 31 December 2015 as Restricted Cash.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

4. Depletion of fair value uplift, remeasurements, impairments and other exceptional items continued
At 31 December 2015, due to the current economic climate, the value of certain items of drilling equipment held within inventory were reviewed against their recoverable values. This assessment has led to a write down of US$13,598,000 within the income statement.

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$3,786,000 (2014: US$6,869,000) is included within cost of sales in the statement of comprehensive income.

Change in surplus lease provision
In June 2015, the Group entered a 20 year lease in respect of the Group's office building in Aberdeen with part of the building subsequently being sub-let. A provision has been recognised for the unavoidable costs in relation to the sub-let space due primarily to a rent free period offered (note 22). For the year ended 31 December 2015, US$3,611,000 has been recognised within rent expenses representing the initial recognition of the provision and the subsequent utilisation in 2015.

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. Based on the current drilling forecasts for 2016, the vessel will not be fully utilised over this period and at 31 December 2015, a provision has been recognised for the unavoidable costs of US$22,948,000.

Negative goodwill
During the year ended 31 December 2014, the Group acquired the PM8/Seligi assets in Malaysia. The assets and liabilities on acquisition was fair valued and as the fair value was greater than the deemed consideration then a gain of US$28,630,000 was recognised.

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, a higher base level cost at SVT and a small excess capacity charge, these all contributed to the exceptional value arising from the 2013 reconciliation. The charge recognised in the year ended 31 December 2014 in relation to the 2013 reconciliation process was US$30,369,000.

There was no exceptional charge or credit in 2015.

Other
As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes Field Development Plan (FDP) approval and 'first oil'. EnQuest paid US$3,000,000 in November 2015 as FDP approval was achieved in October 2015. US$9,000,000 is due on the later of first oil or 30 January 2017 and US$8,000,000 due on the later of one year after first oil or 30 January 2018. In addition further payments will become due if the oil price rises above $75 per barrel on a linear basis up to $100 per barrel, up to a cap of US$20,000,000. The change has resulted from a higher likelihood of the payment being made due to FDP approval of Scolty/Crathes in October 2015. An option model has been used to value the element of the consideration that is contingent on the oil price (refer note 22).

The joint venture audit of the SB307/SB308 operator in Malaysia found an overcall, of which US$518,000 is our share and has been recognised in the income statement.

In addition there is an adjustment relating to the acquisition of PM8/Seligi assets in Malaysia in 2014. Information in respect of US$1,146,000 of a condensate/gas sales reserve was not available at the time of finalising the acquisition accounting. In line with IFRS 3 Business Combinations any adjustments to acquisition accounting are recognised in the income statement.

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

Change in tax rate
Finance Act 2015 enacted a change in the mainstream corporation tax rate, reducing it from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The impact of the change in tax rate in 2015 was a reduction in the tax credit of US$1,367,000. Finance Act 2015 also enacted a change in the supplementary charge tax rate, reducing it from 32% to 20% with effect from 1 January 2015 and a change to the petroleum revenue tax rate, reducing it from 50% to 35% with effect from 1 January 2016. The impact of the change in tax rate in 2015 was an increase in the tax credit of US$58,157,000.

Recoverability of deferred tax assets
At the year end the recovery of deferred tax assets was reviewed and this has led to a reduction in the carrying amount of US$239,067,000 due to uncertainty over the recoverability of these tax assets.

5. Revenue and expenses

(a) Revenue and other operating income

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Revenue from crude oil sales[i]	**895,508**	1,002,210
Revenue from gas sales	**1,917**	–
Tariff revenue	**6,581**	7,564
Other operating revenue	**8**	110
Rental income	**2,568**	–
Business performance revenue	**906,582**	1,009,884
Unrealised gains and losses on commodity derivative contracts[i]	**1,932**	18,611
Total revenue	**908,514**	1,028,495

(i) Included within revenue and other operating income are realised gains of US$261,170,000 (2014: US$31,749,000) and unrealised gains of US$1,932,000 on the Group's commodity derivatives contracts (2014: US$18,611,000) which are either ineffective for hedge accounting purposes or held for trading purposes.

(b) Cost of sales

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Cost of operations[i]	**336,924**	296,211
Tariff and transportation expenses	**69,053**	107,496
Change in lifting position	**23,918**	8,157
Crude oil inventory movement (note 14)	**4,612**	4,535
Depletion of oil and gas assets (note 10)	**298,901**	237,662
Business performance cost of sales	**733,408**	654,061
Depletion of oil and gas assets (note 10)	**3,786**	6,869
Write down of inventory	**13,598**	–
Tariff and transportation expenses	**–**	32,843
Unrealised gains and losses on foreign exchange derivative contracts[i]	**(2,254)**	18,085
Total cost of sales	**748,538**	711,858

(i) Included within cost of operations are realised losses of US$3,169,000 (2014: US$55,273,000 gains) and unrealised gains of US$2,254,000 (2014: US$18,085,000 losses) on foreign exchange derivative contracts ineffective for hedge accounting.

(c) Exploration and evaluation expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Unsuccessful exploration expenditure written off[i] (note 12)	**7,205**	568
Impairment charge[i] (note 12)	**1,854**	151,982
Pre-licence costs expensed	**325**	3,465
	9,384	156,015

(i) Disclosed as exceptional costs in the income statement.

Notes to the Group Financial Statements continued

For the year ended 31 December 2015

5. Revenue and expenses continued

(d) General and administration expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Staff costs (note 5(g))	98,861	107,476
Depreciation (note 10)	7,017	7,438
Other general and administration costs(i)	28,436	26,624
Recharge of costs to operations and joint venture partners	(116,332)	(125,074)
	17,982	16,464

(i) US$3,611,000 disclosed as exceptional representing the movement on the surplus office lease provision.

(e) Other income

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Net foreign exchange gains	15,030	27,176
Fair value movements on financial assets(i)	272	–
Acquisition accounting adjustment(i)	1,146	–
Other income(ii)	919	–
	17,367	27,176

(i) Disclosed as exceptional costs in the income statement.
(ii) US$518,000 disclosed as exceptional costs in the income statement.

(f) Other expenses

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Change in deferred consideration(i)	2,307	–
Fair value movements on financial liabilities(i)	30	–
Write down of receivable(i)	4,350	–
Surplus lease provision(i)	22,948	–
	29,635	–

(i) Disclosed as exceptional costs in the income statement.

(g) Staff costs

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Wages and salaries	50,471	46,203
Social security costs	5,569	3,540
Defined contribution pension costs	3,748	3,366
Expense of share-based payments (note 18)	5,701	8,468
Other staff costs	3,175	3,622
Total employee costs	68,664	65,199
Contractor costs	30,197	42,277
	98,861	107,476

The average number of persons employed by the Group during the year was 475 (2014: 356).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report on pages 62 to 75.

(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 2015 US$'000	Year ended 31 December 2014 US$'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**514**	326
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Group's subsidiaries	**112**	246
Audit related assurance services (interim review)	**67**	69
Tax advisory services	**50**	159
Other assurance services	**–**	137
	229	611
	743	937

6. Finance costs/income

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Finance costs:		
Loan interest payable	**21,965**	5,915
Bond interest payable	**58,248**	46,200
Unwinding of discount on decommissioning provisions (note 22)	**17,034**	12,093
Unwinding of discount on other provisions (note 22)	**4,912**	–
Unwinding of discount on financial liabilities (note 20)	**323**	132
Fair value loss on financial instruments at fair value through profit or loss (note 20)	**70,022**	22,656
Finance charges payable under finance leases	**1**	2
Amortisation of finance fees on loans and bonds	**7,286**	6,771
Other financial expenses	**10,965**	11,768
	190,756	105,537
Less: amounts included in the cost of qualifying assets	**(14,372)**	(3,169)
Business performance finance expenses	**176,384**	121,066
Fair value loss on financial instruments at fair value through profit or loss (note 20)	**49,769**	(18,697)
Unwinding of discount on other provisions	**328**	–
	226,481	102,368
Finance income:		
Bank interest receivable	**287**	304
Unwinding of discount on financial asset (note 20)	**544**	877
Other financial income	**133**	633
	964	1,814

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.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

7. Income tax
(a) Income tax
The major components of income tax expense are as follows:

Group statement of comprehensive income	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Current income tax		
Current income tax charge	**(11)**	4,684
Adjustments in respect of current income tax of previous years	**320**	(6,540)
Current overseas income tax		
Current income tax charge	**11,898**	5,355
Adjustments in respect of current income tax of previous years	**(714)**	2,640
Total current income tax	**11,493**	6,139
Deferred income tax		
Relating to origination and reversal of temporary differences	**(511,356)**	(410,422)
Adjustments in respect of changes in tax rates	**(56,790)**	–
Adjustments in respect of deferred income tax of previous years	**(15,189)**	2,606
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(12,663)**	1,685
Adjustments in respect of deferred income tax of previous years	**3,048**	(2,287)
Total deferred income tax	**(592,950)**	(408,418)
Income tax (credit)/expense reported in statement of comprehensive income	**(581,457)**	(402,279)

(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 2015 US$'000	Year ended 31 December 2014 US$'000
Loss before tax	**(1,340,941)**	(578,688)
Statutory rate of corporation tax in the UK of 50% (2014: 62%)	**(670,471)**	(358,787)
Supplementary corporation tax non-deductible expenditure	**11,636**	(11,612)
Non-deductible expenditure(i)	**85,081**	(12,805)
Non-dectuctible loss on disposals	**3,116**	–
Petroleum revenue tax (net of income tax benefit)(ii)	**(83,070)**	20,190
North Sea tax reliefs	**(109,111)**	(93,726)
Tax in respect of non-ring fence trade	**3,482**	32,078
Tax losses not recognised	**242,124**	12,082
Deferred tax rate changes	**(56,790)**	–
North Sea oil and gas decommissioning rate restriction	**–**	5,323
Adjustments in respect of prior years	**(12,535)**	(3,581)
Overseas tax rate differences	**1,747**	1,162
Share-based payments	**3,288**	5,336
Other differences	**46**	2,061
At the effective income tax rate of 43% (2014: 70%)	**(581,457)**	(402,279)

(i) movement is primarily the impact of non-tax deductible impairment of fixed assets.
(ii) movement is primarily the release of deferred PRT liability following impairment of Thistle and Alba.

(c) Deferred income tax
Deferred income tax relates to the following:

	Group balance sheet		Group statement of comprehensive income	
	2015 US$'000	2014 restated US$'000	**2015 US$'000**	2014 US$'000
Deferred tax liability				
Accelerated capital allowances	**1,012,416**	1,589,226	**(576,810)**	35,246
Other temporary differences	**171,025**	301,578	**(166,678)**	43,116
	1,183,441	1,890,804		
Deferred tax asset				
Losses	**(1,000,559)**	(1,078,095)	**77,535**	(430,867)
Decommissioning liability	**(234,309)**	(203,496)	**(30,813)**	(30,986)
Other temporary differences	**(27,900)**	(132,873)	**103,816**	(24,927)
	(1,262,768)	(1,414,464)		
Deferred tax expense			**(592,950)**	(408,418)
Deferred tax (assets)/liabilities, net	**(79,327)**	476,340		
Reflected in balance sheet as follows:				
Deferred tax assets	**(138,525)**	(40,401)		
Deferred tax liabilities	**59,198**	516,740		
Deferred tax (assets)/liabilities, net	**(79,327)**	476,339		

Reconciliation of deferred tax assets/(liabilities), net

	2015 US$'000	2014 Restated US$'000
At 1 January[(i)]	**(476,340)**	(759,965)
Tax income during the period recognised in profit or loss	**592,950**	408,418
Tax expense during the period recognised in other comprehensive income	**(37,283)**	(96,894)
Deferred taxes acquired	**–**	(27,898)
At 31 December	**79,327**	(476,339)

(i) Opening deferred tax liabilities have been increased by an amount of US$13,703,000 related to the recognition of a deferred tax liability which arose in 2012 in respect of the KUFPEC farm-out receivable. Opening retained earnings as at 1 January 2014 has been increased by a corresponding amount.

(d) Tax losses
The Group's deferred tax assets at 31 December 2015 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 – 'Income Taxes' the Group assessed the recoverability of its deferred tax assets at 31 December 2015 with respect to ring fence tax losses and allowances. The impairment model used to assess the extent to which it is appropriate to recognise the Group's UK tax losses as deferred tax assets was run, using an oil price assumption of Dated Brent forward curve in the years 2016 to 2019 followed by US$70/bbl 'real' terms thereafter. The results of the impairment model demonstrated that it was appropriate not to recognise deferred tax asset on US$478,133,000 (2014: nil) of the Group's UK ring fence corporate tax losses at 31 December 2015 based on expected future profitability. The unrecognised loss amount results in a deferred tax charge of US$239,066,000 (2014: nil) for the year in respect of losses and allowances that were previously recognised as a deferred tax asset.

The Group has unused UK mainstream corporation tax losses of US$36,066,000 (2014: US$16,635,000) 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 realised a capital loss of US$3,320,000 in the year in relation to the disposal of a subsidiary company which has not been recognised at the balance sheet date due to the uncertainty of recovery.

The Group has unused overseas tax losses in Canada of approximately CAD$13,359,000 (2014: CAD$12,735,000) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of 20 years, none of which expire in 2016 and which arose following the change in control of the UK Stratic Group in 2010.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

7. Income tax continued
During the year the Group relinquished licences SB307 and SB308 in Malaysia and its only concession in Egypt. No deferred tax asset has been recognised at the balance sheet date in respect of tax losses of US$29,965,000 (2014: US$29,700,000) in Malaysia and US$3,133,000 (2014: US$3,300,000) in Egypt due to the uncertainty of recovery.

The Group has unused Malaysian income tax losses of US$2,052,000 (2014: nil) arising in respect of the Tanjong Baram RSC for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

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

(e) Change in legislation
Finance Act 2015 enacted a change in the mainstream corporation tax rate, reducing it from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The impact of the change in tax rate in 2015 was a reduction in the tax credit of US$1,367,000.

Finance Act 2015 also enacted a change in the supplementary charge tax rate, reducing it from 32% to 20% with effect from 1 January 2015 and a change to the petroleum revenue tax rate, reducing it from 50% to 35% with effect from 1 January 2016. The impact of the change in tax rate in 2015 was an increase in the tax credit of US$58,157,000.

(f) Factors affecting future tax charges
Finance Act 2015 replaced field allowances with a new investment allowance for expenditure incurred in the UKCS. The Group's existing field allowances have been reclassified as investment allowances as at 1 April 2015. Additional investment spend from 1 April 2015 should generate further investment allowance which, when activated, will reduce future ring fence profits chargeable to Supplementary Charge.

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.

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:

	Profit /(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2015 US$'000	2014 US$'000	**2015 Million**	2014 Million	**2015 US$**	2014 US$
Basic	**(759,484)**	(176,409)	**774.8**	774.1	**(0.980)**	(0.228)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**–**	–	**–**	–
Diluted	**(759,484)**	(176,409)	**774.8**	774.1	**(0.980)**	(0.228)
Adjusted (excluding exceptional items)	**127,817**	137,409	**774.8**	774.1	**0.165**	0.178
Diluted (excluding exceptional items)	**127,817**	137,409	**774.8**	774.1	**0.165**	0.178

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2015 (2014: nil). At 31 December 2015 there are no proposed dividends (2014: nil).

10. Property, plant and equipment

	Land and buildings US$'000	Oil and gas assets US$'000	Office furniture, fixtures and fittings US$'000	Total US$'000
Cost:				
At 1 January 2014	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
Change in cost recovery provision	–	163,334	–	163,334
At 31 December 2014 (restated)[(i)]	59,937	5,433,198	33,269	5,526,404
Additions	18,212	789,670	18,596	826,478
Change in cost carry liabilities	–	(78,045)	–	(78,045)
Disposal	(78,149)	–	–	(78,149)
Change in decommissioning provision	–	45,575	–	45,575
Change in cost recovery provision	–	(41,125)	–	(41,125)
Reclassification from intangible fixed assets (note 12)	–	16,215	–	16,215
At 31 December 2015	**–**	**6,165,488**	**51,865**	**6,217,353**
Depletion and depreciation:				
At 1 January 2014	–	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
Charge for the year	41	302,687	6,976	309,704
Impairment charge for the year	–	1,224,463	–	1,224,463
Disposal	(151)	–	–	(151)
At 31 December 2015	**–**	**3,752,020**	**28,661**	**3,780,681**
Net carrying amount:				
At 31 December 2015	**–**	**2,413,468**	**23,204**	**2,436,672**
At 31 December 2014	59,827	3,208,328	11,584	3,279,739
At 1 January 2014	17,272	2,840,474	13,483	2,871,229

(i) At 31 December 2014 the provision for KUFPEC's cost recovery protection mechanism was presented net within property, plant and equipment. The numbers presented above have been restated to show the balance of property, plant and equipment gross of this provision. For further information refer to note 22.

On 28 August 2015, the Group completed the sale and leaseback of its Aberdeen property, Annan House for US$69,525,000 resulting in a loss on disposal of US$8,473,000.

The change in carry liabilities is principally due to management's reassessment of 2P reserves to be used in the calculation for the Kraken carry provision resulting in a derecognition of the US$80,000,000 provision (see note 22). In addition, there has been a change in the estimate required for the Malaysian cost carry of US$1,955,000 (see note 20(f)).

On 12 October 2015, the Scolty/Crathes field received Field Development Plan (FDP) approval. Costs of US$16,052,000 previously held within exploration assets have been reclassified as a tangible oil and gas asset.

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.

The impairment charge in the year ended 31 December 2015, relate to Heather/Broom (US$120,291,000), Thistle (US$263,061,000), Dons (US$182,433,000), Alma/Galia (US$595,542,000), Alba (US$25,324,000), all part of the UKCS CGU and also a charge relating to the Malaysian asset, Tanjong Baram (US$7,813,000) These assets have recoverable amounts of US$55,964,000, US$100,861,000, US$13,168,000, US$215,250,000, US$(1,327,000) and US$70,731,000 respectively. The impairment was principally due to the continuing fall in the oil price during 2015 and the resulting reduction in future revenues and 2P reserves, together with the impact of cutting the capital programme, in response to the changing economic conditions. For information on significant estimates and judgements made in relation to impairments see Impairment of oil and gas assets and goodwill within note 2 Critical Accounting Estimates and Judgements.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

10. Property, plant and equipment continued
During the year ended 31 December 2014, there were impairments in the Alma/Galia and Don fields of US$678,801,000 (US$256,896,000 on a post tax basis). The impairment was principally due to the significant fall in the oil price in the latter part of 2014. Other factors contributing to the impairment included 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 was Alma/Galia, where it was written down by US$675,600,000 to the estimate of its recoverable value of US$832,900,000.

The net book value at 31 December 2015 includes US$1,009,842,000 (2014: US$1,504,172,000) of pre-development assets and development assets under construction which are not being depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2015 was US$14,372,000 (2014: US$3,169,000) 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 2.03% (2014: 1.54%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2015 was US$141,000 (2014: US$141,000) of oil and gas assets.

11. Goodwill
A summary of goodwill is presented below:

	2015 US$'000	2014 US$'000
Cost		
At 1 January	**189,317**	107,760
Additions	**–**	81,557
At 31 December	**189,317**	189,317
Provision for impairment		
At 1 January and 31 December	**–**	–
Net carrying amount	**189,317**	189,317

The balance at 1 January 2014 represents goodwill acquired on the acquisition of Stratic and PEDL in 2010. The additions during the year ended 31 December 2014 represent the acquisition of the Greater Kittiwake Area asset in 2014.

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

The recoverable amounts of the CGU and fields have been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis discounted at the Group's post-tax weighted average cost of capital (WACC) of 8.45% (2014: 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; and
- opex, capex and decommissioning costs.

Oil prices are based on dated Brent forward price curves for the first three years and thereafter at US$70 per barrel inflated at 2% per annum from 2020.

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.

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

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 8.45%.

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 10% 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 35% 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

	Cost US$'000	Impairment US$'000	NBV US$'000
At 1 January 2014	228,769	(97,895)	130,874
Additions	67,095	–	67,095
Acquisition of interests in licences	19,800	–	19,800
Write-off of relinquished licences previously impaired	(8,423)	8,423	–
Disposals	(143)	–	(143)
Unsuccessful exploration expenditure written off	(568)	–	(568)
Change in decommissioning provision	634	–	634
Impairment charge for the year	–	(151,982)	(151,982)
At 31 December 2014	307,164	(241,454)	65,710
Additions	**15,588**	**–**	**15,588**
Disposal of interests in licences	**(9,329)**	**–**	**(9,329)**
Write-off of relinquished licences previously impaired	**(63,123)**	**63,123**	**–**
Unsuccessful exploration expenditure written off	**(7,205)**	**–**	**(7,205)**
Change in decommissioning provision	**(165)**	**–**	**(165)**
Reclassified to tangible fixed assets (note 10)	**(16,215)**	**–**	**(16,215)**
Impairment charge for the year	**–**	**(1,854)**	**(1,854)**
At 31 December 2015	**226,715**	**(180,185)**	**46,530**

On 10 September 2015, the Group acquired an additional 10% working interest in the Scolty/Crathes field. On FDP approval in October 2015, the total exploration costs of Scolty/Crathes were reclassified to tangible oil and gas assets (note 10).

In October 2015, the Group disposed of its 35% interest in the Norwegian licences PL 758 and PL800 and its 50% interest in the PL760 and PL760B for US$2,065,000, resulting in a loss of US$2,264,000. 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.

In 2015, the Group exited from its interest in Egypt and costs of US$5,000,000 refunded are included within disposal of interests in licences above.

In the year ended 31 December 2015, costs were written off primarily in relation to the Cairngorm and Elke licences.

On 31 October 2015, the Group completed its withdrawal from SB307/308 blocks in Malaysia. Costs associated with SB307 and SB308 were impaired in the year ended 31 December 2014.

The impairment charge for the year ended 31 December 2014 included 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 were also impaired.

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.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

13. Investments

	US$'000
Cost	
At 1 January 2014, 31 December 2014 and 31 December 2015	**19,231**
Provision for impairment	
At 1 January 2014	(16,828)
Impairment charge for the year(i)	(1,714)
At 31 December 2014	(18,542)
Impairment charge for the year	(566)
At 31 December 2015	**(19,108)**
Net carrying amount:	
At 31 December 2015	**123**
At 31 December 2014	689
At 1 January 2014	2,403

(i) US$1,316,000 was recognised in the income statement and US$398,000 reversing the available-for-sale reserve in 2014.

The investment relates to ordinary shares in Ascent acquired in 2011. In November 2015, Ascent agreed a capital re-organisation whereby new shares were issued and the share capital was re-denominated. The impact was to reduce EnQuest's holding from 160,903,958 0.1p ordinary shares to 8,045,198 0.2p ordinary shares.

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$566,000 in the year to 31 December 2015 (2014: impairment of US$1,714,000).

14. Inventories

	2015 US$'000	2014 US$'000
Crude oil	**11,477**	11,695
Well supplies	**56,152**	77,702
	67,629	89,397

15. Trade and other receivables

	2015 US$'000	2014 US$'000
Trade receivables	**71,740**	53,812
Joint venture receivables	**110,792**	61,000
Under-lift position	**14,011**	15,010
VAT receivable	**16,838**	20,818
Other receivables	**26,246**	18,716
	239,627	169,356
Prepayments and accrued income	**112,246**	116,871
	351,873	286,227

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 2015 no impairment provision for trade receivables was necessary (2014: 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 2015 and 31 December 2014 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.

16. Cash and cash equivalents

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short term maturities. Included within the cash balance at 31 December 2015 is restricted cash of US$11,509,000 (2014: US$27,183,000). US$6,782,000 of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2014: US$22,324,000) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

17. Share capital

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

	2015 US$'000	2014 US$'000
Authorised, issued and fully paid 802,660,757 (2014: 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 2015 or 2014.

At 31 December 2015 there were 26,702,378 shares held by the Employee Benefit Trust (2014: 29,691,691), the decrease is due to shares used to satisfy awards made under the Company's share-based incentive schemes.

18. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan. A Sharesave Plan was approved in 2012. The 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
2015 awards	39p	99%
2014 awards	127p	91%
2013 awards	127p	96%

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

	2015 Number*	2014 Number*
Outstanding at 1 January	**1,601,635**	1,484,001
Granted during the year	**1,860,580**	1,021,538
Exercised during the year	**(859,568)**	(741,856)
Forfeited during the year	**(48,378)**	(162,048)
Outstanding at 31 December	**2,554,269**	1,601,635

* Includes invested and matching shares.

There were no share awards exercisable at either 31 December 2015 or 2014.

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.1 years (2014: 0.9 years).

The charge recognised in the 2015 statement of comprehensive income in relation to matching share awards amounted to US$1,095,000 (2014: US$2,095,000).

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

18. Share-based payment plans continued
Restricted Share Plan (RSP)
Under the Restricted Share Plan scheme, employees are granted shares in EnQuest over a discretionary vesting period 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
2015 awards	39p	99%
2014 awards	124p	95%
2013 awards	128p	78%
2012 awards	123p	51%

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

	2015 Number	2014 Number
Outstanding at 1 January	**5,271,022**	8,379,718
Granted during the year	**1,390,000**	288,862
Exercised during the year	**(767,124)**	(2,759,692)
Forfeited during the year	**(78,206)**	(637,866)
Outstanding at 31 December	**5,815,692**	5,271,022
Exercisable at 31 December	**3,021,061**	3,002,311

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.8 years (2014: 1.3 years).

The charge recognised in the year ended 31 December 2015 amounted to US$879,000 (2014: US$1,637,000).

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
2015 awards	39p	96%
2014 awards	127p	88%
2013 awards	127p	82%

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

	2015 Number	2014 Number
Outstanding at 1 January	**11,091,120**	8,299,026
Granted during the year	**12,125,800**	4,905,547
Exercised during the year	**(1,346,663)**	(332,920)
Forfeited during the year	**(1,522,233)**	(1,780,533)
Outstanding at 31 December	**20,348,024**	11,091,120
Exercisable at 31 December	**1,178,512**	605,679

The weighted average contractual life for the share awards outstanding as at 31 December 2015 was 1.7 years (2014: 1.6 years).

The charge recognised in the year ended 31 December 2015 amounted to US$3,717,000 (2014: US$4,711,000).

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
2015 awards	6p	88%
2014 awards	38.7p	13%
2013 awards	20p	13%

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

	2015 Number	2014 Number
Outstanding at 1 January	**1,315,755**	1,086,120
Granted during the year	**7,653,785**	1,017,570
Exercised during the year	**–**	(13,000)
Forfeited during the year	**(2,020,298)**	(774,935)
Outstanding at 31 December	**6,949,242**	1,315,755

There were no share options exercisable at either 31 December 2015 or 2014.

The weighted average contractual life for the share options outstanding as at 31 December 2015 was 2.9 years (2014: 2.6 years).

The charge recognised in the 2015 statement of comprehensive income amounted to US$10,000 (2014: US$25,000).

The Group has recognised a total charge of US$5,701,000 (2014: US$8,468,000) in the statement of comprehensive income during the year, relating to the above employee share-based schemes.

19. Loans and borrowings

Revolving credit facility

At 31 December 2015, 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 (subject to the level of reserves) 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 4.25%, dependent on specified covenant ratios.

At 31 December 2015, US$902,277,000 was drawn down under the Group's facility agreement (2014: US$217,649,000) and LoC utilisation was US$7,718,000 (2014: US$149,395,000). Unamortised facility fees of US$19,167,000 have been netted off against the drawdowns in the balance sheet (2014: US$24,168,000).

Tanjong Baram project finance loan

During the year ended 31 December 2015, the Group entered a five year US$35,000,000 loan facility in Malaysia. Interest is payable at USD LIBOR plus a margin of 2.25%. Unamortised fees of US$886,000 have been netted off against the loan balance 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$651,120,000 (2014: US$651,077,000).

At 31 December 2015, the Group also had a 5.5% Sterling Retail Bond of £155,245,000. 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$95,508,000 (2014: US$169,010,000) but is carried at its amortised cost of US$231,480,000 (2014: US$244,173,000). 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.

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

20. Other financial assets and financial liabilities
(a) Summary

	2015 US$'000	2014 US$'000
Financial instruments at fair value through other comprehensive income		
Current assets		
Cash flow hedges:		
Commodity contracts	**214,499**	87,299
Interest rate swap	**47**	–
	214,546	–
Current liabilities		
Cash flow hedges:		
Forward foreign currency contracts	**1,023**	–
Financial instruments at fair value through profit or loss		
Current assets		
Derivatives not designated as hedges:		
Commodity contracts	**36,511**	7,930
Forward foreign currency contracts	**–**	2,409
	36,511	10,339
Current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**–**	22,445
Forward foreign currency contracts	**8,143**	12,805
	8,143	35,250
Non-current liabilities		
Derivatives not designated as hedges:		
Commodity contracts	**–**	18,041
Loans and receivables		
Current assets		
Other receivable	**7,635**	3,294
Non-current assets		
Other receivable	**15,262**	18,809
Other financial liabilities at amortised cost		
Current liabilities		
Other liability	**3**	66,228
Non-current liabilities		
Other liability	**7,684**	5,653
Total current assets	**258,692**	100,932
Total non-current assets	**15,262**	18,809
Total assets	**273,954**	119,741
Total current liabilities	**9,169**	101,478
Total non-current liabilities	**7,684**	23,694
Total liabilities	**16,853**	125,172

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

Oil price hedging
Purchased put options are designated as hedges of the Group's production. Where these contracts are effective from a hedge accounting perspective, any intrinsic value gains are deferred until such time as the production to which they relate is sold. Movements in the time value of these options are recognised in finance costs. A total of 10,000,000 barrels of 2015 production, was hedged via the purchase of put options, with a strike price of US$65/bbl. Gains totalling US$127,846,000 were included in realised revenue in the income statement in respect of these matured options. A total of 10,000,000 barrels of 2016 production was hedged via similar contracts, with strike prices of between US$67/bbl and US$69/bbl. During July 2015 the Group closed put options which were hedging 2,000,000 barrels of 2016 production, realising US$16,755,000 in cash, and replaced these with oil swap contracts to sell 2,000,000 barrels in 2016 at a fixed price of US$67/bbl.

As at 31 December 2015 the Group held put options over 8,000,000 bbls maturing in 2016. The mark to market of the intrinsic value portion of these contracts at 31 December 2015 was US$217,160,000, which has been deferred as it relates to contracts hedging future production. Mark to market losses on the time value element of these put options, totalling US$119,791,000 have been recognised in finance costs. Of this amount, US$70,022,000 has been recognised within the Group's 'business performance' results as it relates to the amortisation of the option premium paid, over the life of the option. The balance of the mark to market losses have been recognised as an exceptional charge in line with the Group's accounting policy.

The fair value of the put options as at 31 December 2015 was US$164,763,000.

In addition, in 2014 gains totalling US$119,054,689 were realised when put options hedging 8,000,000 bbls of 2015 production were closed. This gain was deferred in cash flow hedge reserves as at 31 December 2014. This has been realised to revenue during the year ended 31 December 2015.

Commodity derivative contracts at fair value through profit and loss
Commodity derivative contracts not designated as effective hedges are designated as 'At Fair Value Through Profit and Loss' ('FVTPL'), and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, sold put options and commodity swap contracts.

For the year ended 31 December 2015, gains totalling US$19,576,000 were recognised in respect of commodity contracts designated as FVTPL. This included losses totalling US$94,847,000 realised on contracts that matured during the year ended 31 December 2015, and mark to market gains totalling US$114,423,000. Of this amount, US$111,572,000 was realised in business performance revenue in respect of the amortisation of premium income received on sale of these options. The premiums received are amortised into business performance revenue over the life of the option. The balance, being a gain of US$2,851,000 was recognised in exceptional revenue in line with the Group's accounting policy.

In H2 2015, the Group sold put options held with a strike price of US$65/bbl over a total of 4,164,333 barrels maturing in August – December 2015, for proceeds totalling US$31,402,000.

Business performance revenue for the year ended 31 December 2015 included US$10,441,000 of call option premium on options closed early, which would have been recognised in 2016 had these options not been closed early. The cost of closing these options was US$1,350,000 which was included in business performance revenue for the year ended 31 December 2015.

The mark to market of the Group's open contracts as at 31 December 2014 was a loss of US$36,227,000 in respect of option contracts and a gain of US$3,670,000 in respect of open swap positions. The option contract mark to market was in respect of net sold call options over a total of 10,246,150 barrels, maturing in 2015 with an average strike price of US$96.94/bbl, and 7,498,199 barrels of net sold call options maturing during 2016 with an average strike price of US$99.36/bbl.

(c) Forward foreign currency contracts
During the year ended 31 December 2015 various forward currency contracts were entered into to hedge the Group's exposure to Euro, Norwegian Kroner and Sterling opex and capex. At 31 December 2015, the contracts which do not qualify for hedge accounting have a net liability fair value of US$8,143,000 (2014: US$10,397,000) and those which do qualify for hedge accounting have a net liability fair value of US$1,023,000 (2014: nil). The gains/losses recognised in the income statement are US$2,254,000 unrealised gain (31 December 2014: US$18,085,000 unrealised loss) and US$3,169,000 realised loss (2014: US$55,273,000 realised gain) within cost of sales.

(d) Interest rate swap
During the year ended 31 December 2015, the Group entered an interest rate swap which effectively swaps 50% of floating USD LIBOR rate interest on the Malaysian loan into a fixed rate of 1.035% until 2018. The swap which is effective from a hedge accounting perspective has a net asset fair value of US$47,000. The impact on the income statement is US$31,000 recognised within finance expenses.

Notes to the Group Financial Statements continued

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20. Other financial assets and financial liabilities continued

(e) Income statement impact

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

Year ended 31 December 2015	Revenue Realised US$'000	Revenue Unrealised US$'000	Cost of sales Realised US$'000	Cost of sales Unrealised US$'000	Finance income/(expenses) Realised US$'000	Finance income/(expenses) Unrealised US$'000
Call options	23,544	12,001	–	–	–	–
Put options	244,445	(920)	–	–	(70,022)	(49,769)
Commodity swaps	(6,819)	(9,149)	–	–	–	–
Foreign exchange swap contracts	–	–	1,174	144	–	–
Other forward currency contracts	–	–	(4,343)	2,110	–	–
Interest rate swap	–	–	–	–	(31)	–
	261,170	1,932	(3,169)	2,254	(70,053)	(49,769)

Year ended 31 December 2014	Revenue Realised US$'000	Revenue Unrealised US$'000	Cost of sales Realised US$'000	Cost of sales Unrealised US$'000	Finance income/(expenses) Realised US$'000	Finance income/(expenses) Unrealised US$'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

(f) Other receivables and liabilities

Other receivables

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 over a 36 month period after Alma/Galia is deemed to be fully operational, the fair value of which was US$19,300,000. The balance of the receivable at 31 December 2015 is US$22,647,000 (2014: US$22,103,000). The unwinding of discount of US$544,000 is included within finance income for the year ended 31 December 2015 (2014: US$877,000).

During the year, contingent consideration receivable on the disposal of the Slovenian Petisovci asset to Ascent in 2011 was converted into a convertible loan note. The fair value of the convertible loan note at 31 December 2015 is US$250,000 (2014: nil). The loan note is due to mature in November 2016.

Other liabilities

The consideration for the acquisition of 40% of the Kraken field from Cairn (previously 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. The firm carry expired in 2015 (2014: liability US$66,502,000). The 'contingent' carry has been accounted for as a provision (note 22).

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$7,657,000 has been disclosed as a financial liability (2014: US$5,379,000). The unwinding of discount of US$323,000 is included within finance expense for the year ended 31 December 2015 (2014: US$132,000).

The fair value of the Group's oil price related embedded derivatives is US$30,000 (2014: nil).

	Other liabilities US$'000	Other receivables US$'000
At 1 January 2014	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
Additions during the year	1,985	433
Change in fair value	–	(161)
Utilised during the year	(66,502)	–
Unwinding of discount	323	544
Foreign exchange	–	(22)
At 31 December 2015	**7,687**	**22,897**

21. 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 2015	251,009	–	251,009	–
Interest rate swap	31 December 2015	47	–	47	–
Other financial assets					
Available-for-sale financial investments					
Quoted equity shares	31 December 2015	123	123	–	–
Loans and receivables					
Other receivables	31 December 2015	22,897	250	–	22,647
Liabilities measured at fair value:					
Derivative financial liabilities					
Forward foreign currency contracts	31 December 2015	9,165	–	9,165	–
Other liability					
Other liabilities	31 December 2015	7,687	–	30	7,657
Liabilities for which fair values are disclosed (notes 19 and 24)					
Interest bearing loans and borrowings	31 December 2015	917,223	–	917,223	–
Obligations under finance leases	31 December 2015	36	–	36	–
Sterling retail bond	31 December 2015	95,508	–	95,508	–
High yield bond	31 December 2015	651,120	–	651,120	–

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21. Fair value measurement continued

There have been no transfers between Level 1 and Level 2 during the period. The forward foreign currency, the commodity forward contracts and interest rate swap were valued externally by the respective banks and have been reviewed internally.

	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 liabilities					
Other liabilities	31 December 2014	71,881	–	–	71,881
Liabilities for which fair values are disclosed (notes 19 and 24)					
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	–

22. Provisions

	Decommissioning provision US$'000	Carry provision US$'000	Cost recovery provision US$'000	Contingent Consideration US$'000	Surplus lease provision US$'000	Total US$'000
At 1 January 2014	228,426	80,000	–	–	–	308,426
Additions during the year	7,622	–	163,334	–	–	170,956
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	163,334	26,700	–	719,702
Additions during the year	70,581	–	–	–	27,448	98,029
Changes in estimates	(25,171)	(80,000)	(41,125)	2,307	–	(143,989)
Unwinding of discount	17,034	–	4,912	262	66	22,274
Utilisation	(5,342)	–	–	(3,000)	(888)	(9,230)
Foreign exchange	–	–	–	–	(209)	(209)
At 31 December 2015	**506,770**	**–**	**127,121**	**26,269**	**26,417**	**686,577**

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 2034 assuming no further development of the Group's assets. The liability is discounted at a rate of 3.0% (2014: 3.0%). 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 Cairn (previously Nautical) and First Oil in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which is due to commence in April 2016. The 'contingent' carry is pro-rated between 100 and 166 million barrels of proven and probable reserves (2P reserves). The agreement specifies that the dated Brent forward curve at the date of the determination is to be used to determine the reserves of Kraken for the purpose of determining the contingent carry. A provision of US$80,000,000 was recognised in 2013 when the FDP was approved which stated 137 million barrels. Following the significant decline in the oil price, management's view is that no payment will be required under the acquisition agreement. Accordingly the provision has been reversed in full with a corresponding credit to PP&E. Whilst management's view is that no contingent carry will be payable, the reserves determination will be performed by an independent reserves assessor and accordingly the risk remains a payment could be required.

Cost recovery provision

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

A provision has been made for the expected payments that the Group will make to KUFPEC. The assumptions made in arriving at the projected cash payments are consistent with the assumptions used in the Group's 2015 year end impairment test, and the resulting cash flows were included in the determination of the recoverable value of the project. In establishing when KUFPEC has recovered its capital cost to first oil, the farm-in agreement requires the use of the higher of the actual oil price, or $90/bbl real, inflated at 2% per annum from 2012. These cash flows have been discounted at a rate of 3.0% (2014: 3.0%).

The provision required at 31 December 2014 was netted within the balance of property, plant & equipment as at 31 December 2014. The 31 December 2014 figures presented above have been restated to show the provision separately from the property, plant & equipment balance (see also note 10).

Contingent consideration

As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration has been agreed based on Scolty/Crathes Field Development Plan (FDP) approval and 'first oil'. EnQuest paid US$3,000,000 in November 2015 as FDP approval was achieved in October 2015. US$9,000,000 is due on the later of first oil or 30 January 2017 and US$8,000,000 due on the later of one year after first oil or 30 January 2018. In addition further payments will become due if the oil price rises above $75 per barrel on a linear basis up to $100 per barrel, up to a cap of US$20,000,000. The cashflows have been discounted using a 3.0% discount rate.

Surplus lease provision

In June 2015, the Group entered a 20 year lease in respect of the Group's office building in Aberdeen with part of the building subsequently being sub-let with a rent free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space. The provision has been discounted using a 3.0% discount rate. At 31 December 2015, the provision was US$3,469,000.

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. Based on the current drilling forecasts for 2016, the vessel will not be fully utilised over this period and at 31 December 2015, a provision has been recognised for the unavoidable costs of US$22,948,000.

23. Trade and other payables

	2015 US$'000	2014 US$'000
Trade payables	**230,475**	189,257
Accrued expenses	**274,436**	220,723
Over-lift position	**35,797**	13,108
Joint venture creditors	**765**	–
Other payables	**2,045**	5,982
	543,518	429,070

Notes to the Group Financial Statements continued
For the year ended 31 December 2015

23. Trade and other payables continued
Trade payables are non-interest bearing and are normally settled on terms of between 10 and 30 days. During the year the Group entered contracts with various suppliers to defer payment of a proportion of its spend on the Kraken and Scolty/Crathes developments in accordance with meeting certain milestones. The balance of these deferred payments as at 31 December 2015 will be settled in the latter part of 2016. 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.

24. Commitments and contingencies
Commitments

(i) Operating lease commitments – lessee

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

	2015 US$'000	2014 US$'000
Not later than one year	**5,694**	2,031
After one year but not more than five years	**20,926**	3,733
Over five years	**85,631**	1,335
	112,251	7,099

Lease payments recognised as an operating lease expense during the year amounted to US$4,062,000 (2014: US$3,086,000).

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$8,348,000 (2014: US$13,976,000).

(ii) Operating lease commitments – lessor

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

	2015 US$'000	2014 US$'000
Not later than one year	**150**	–
After one year but not more than five years	**5,242**	–
Over five years	**9,098**	–
	14,490	–

(iii) Finance lease commitments

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

	2015 Minimum payments US$'000	2015 Present value of payments US$'000	2014 Minimum payments US$'000	2014 Present value of payments US$'000
Due in less than one year	**37**	**36**	37	36
Due in more than one year but not more than five years	**–**	**–**	37	36
	37	**36**	74	72
Less future financing charges	**(1)**	**–**	(2)	–
	36	**36**	72	72

The leases are fixed rate leases with an effective borrowing rate of 2.37% (2014: 2.37%) and is repayable in 2016.

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.

(iv) Capital commitments
At 31 December 2015, the Group had capital commitments excluding the above lease commitments amounting to US$433,496,000 (2014: US$788,259,000).

Contingencies
There is 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.

A counterparty has initiated a legal claim against the Group alleging breach of a contractual warranty. The Group considers the merits of the claim to be poor and the Group intends to vigorously defend itself. In the unlikely event that the claim is successful, the Group considers the most likely range for the quantum of any damages award to be between nil and US$20,000,000 (and unlikely to have a significant effect on the Group's consolidated financial position or results). The Group anticipates that in the unlikely event of any trial running to a judgement against the Group, no payment of any damages award is likely to be required before 2018.

25. Related party transactions

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

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

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. There have been no transactions with related parties who are not members of the Group during the year ended 31 December 2015 (2014: 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:

	2015 US$'000	2014 US$'000
Short term employee benefits	**4,521**	4,789
Share-based payments	**1,896**	3,375
Post employment pension benefits	**37**	42
	6,454	8,206

26. Risk management and financial instruments

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

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2015 and 2014 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 2015, are disclosed in note 20.

Notes to the Group Financial Statements continued

For the year ended 31 December 2015

26. Risk management and financial instruments continued

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

	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 2015	**(10,000)**	**10,000**	**(55,000)**	**55,000**
31 December 2014	–	–	(14,495)	37,910

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% (2014: 1%) of the Group's sales and 99% (2014: 91%) of costs are denominated in currencies other than the functional currency.

During the year ended 31 December 2015 various forward currency contracts and structured products were entered into to hedge the Groups exposure to Euro, Norwegian Krone and Sterling opex and capex.

In January 2015, knockout forwards were entered to mitigate the foreign currency risk arising on the £307,000,000 of Sterling based capex expenditure of the Group. Between the range US$1.505 and US$1.42, they trade at spot, outwith this range EnQuest trades at US$1.505. Should the rate rise above US$1.611 then there is no trade. The contracts mature between January 2015 and February 2016.

Also in January 2015, EnQuest entered into a series of FX forward contracts to purchase £283,297,000 to fund the Group's opex Sterling expenditure. EnQuest will trade at spot between the range US$1.532 and US$1.42, out with this range EnQuest will trade at US$1.532. The contracts mature between February 2015 and October 2016.

In March 2015, EnQuest entered a series of FX forward contracts to purchase €32,556,000 of the Group's Euro capex expenditure specifically in relation to the Kraken development project. EnQuest will trade at spot when the Euro/USD rate is between US$1.195 and US$0.97. Outwith this range EnQuest will trade at US$1.1195.

Also in 2015 two NOK forwards totalling NOK74,580,000 were entered into with an average strike price of NOK7.84:£1, these will mature in August and November 2016.

In prior years the Group entered into a series of forward contracts and structured products to hedge a portion of its Sterling, Euro and Norwegian Krone exposure. 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. The remaining contracts matured during 2015.

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 was hedged and any remaining contracts matured during 2015.

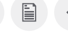
Also during 2014, EnQuest entered several foreign exchange swap contracts when Sterling was trading above $1.66:£1. The realised impact of US$46,756,000 was recognised in the income statement within cost of sales in the year ended 31 December 2014.

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 2015 US$'000**	Year ended 31 December 2014 US$'000
+10%	**(58,173)**	(75,962)
-10%	**58,173**	75,962

Credit risk

Credit risk is managed on a Group basis. Credit risk in financial instruments arises from cash and cash equivalents and derivative financial instruments where the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments (see maturity table within liquidity risks). For banks and financial institutions, only those rated with a A-/A3 credit rating or better are accepted. Cash balances can be invested in short term bank deposits and AAA-rated liquidity funds, subject to Board approved limits and with a view to minimising counterparty credit risks.



In addition there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas operators and at 31 December 2015 there were no trade receivables past due (2014: nil), US$1,480,000 of joint venture receivables past due (2014: US$490,000) and nil (2014: US$1,955,000) 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	**2015 US$'000**	2014 US$'000
Less than 30 days	**709**	183
30-60 days	**–**	–
60-90 days	**–**	5
90-120 days	**–**	2
120+ days	**771**	2,255
	1,480	2,445

At 31 December 2015, the Group had three customers accounting for 65% of outstanding trade and other receivables (2014: three customers, 89%) and five joint venture partners accounting for 98% of joint venture receivables (2014: three joint venture partners, 95%).

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 2015, the Group complied with the financial ratios applicable for the 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 agreed to relax existing credit facility covenants. The net debt/EBITDA covenant was increased to five times and the ratio of financial charges to EBITDA was reduced to three times, both until mid-2017. The financial covenants of the retail bond were subsequently made consistent with the amended covenants in the revolving credit facility.

At 31 December 2015, 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 2015	**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	**–**	**52,042**	**56,466**	**956,522**	**–**	**1,065,030**
Bond	**–**	**58,140**	**58,140**	**174,419**	**955,223**	**1,245,922**
Obligations under finance leases	**–**	**37**	**–**	**–**	**–**	**37**
Accounts payable and accrued liabilities	**543,518**	**–**	**–**	**–**	**–**	**543,518**
Other liabilities	**–**	**–**	**8,250**	**–**	**–**	**8,250**
	543,518	**110,219**	**122,856**	**1,130,941**	**955,223**	**2,862,757**

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 liabilities	–	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

Notes to the Group Financial Statements continued

For the year ended 31 December 2015

26. Risk management and financial instruments continued

The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis.

Year ended 31 December 2015	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	–	38,819	203,306	–	–	242,125
Foreign exchange forward contracts	–	163,651	545,195	–	–	708,846
Foreign exchange forward contracts	–	(163,651)	(546,241)	–	–	(709,892)
Interest rate swaps	–	(32)	(82)	(77)	(34)	(225)
	–	38,787	202,178	(77)	(34)	240,854

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

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as in the Group Statement of Changes in Equity on page 92.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required. Note 19 to the financial statements provides further details of the Group's financing activity.

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, 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:

	2015 US$'000	2014 US$'000
Loans, borrowings and bond[(i)] (A)	1,816,965	1,143,825
Cash and short term deposits	(269,049)	(176,791)
Net debt/(cash) (B)	1,547,916	967,034
Equity attributable to EnQuest PLC shareholders (C)	667,199	1,346,170
Loss for the year attributable to EnQuest PLC shareholders (D)	(759,484)	(176,409)
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	127,817	137,409
Gross gearing ratio (A/C)	2.723	0.850
Net gearing ratio (B/C)	2.320	0.718
Shareholders' return on investment (D/C)	(114%)	(13%)
Shareholders' return on investment excluding exceptionals (E/C)	19%	10%

(i) Principal amounts drawn, excludes netting off of fees.

27. Post balance sheet events

On 22 February 2016, EnQuest announced the acquisition of an additional 10.5% interest in the Kraken development for nominal consideration from First Oil PLC. This brings EnQuest's total interest to 70.5%.

28. Subsidiaries

At 31 December 2015, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Heather Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited (i)	Extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited (i)	Intermediate holding company	England	100%
Grove Energy Limited	Intermediate holding company	Canada	100%
EnQuest ENS Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS (i)	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited (i)	Leasing	England	100%
EQ Petroleum (Sabah) Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited (i)	Dormant	England	100%
EnQuest Energy Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EQ Petroleum Production Malaysia Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited	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	Jersey	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited (i)	Dormant	England	100%
EnQuest UK Limited (i)	Dormant	England	100%
EnQuest 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 2015

	Note	2015 US$'000	2014 US$'000	1 January 2014 US$'000
Fixed assets				
Investments	3	**987,872**	1,357,629	1,348,518
Current assets				
Debtors				
– due within one year	5	**3,377**	13,355	224,681
– due after one year	5	**894,820**	706,390	–
Cash at bank and in hand	4	**283**	1,468	668
		898,480	721,213	225,349
Creditors: amounts falling due within one year	7	**(223,915)**	(20,216)	(118,859)
Net current assets		**674,565**	700,997	106,490
Total assets less current liabilities		**1,662,437**	2,058,626	1,455,008
Creditors: amounts falling due after one year	8	**(870,281)**	(882,561)	(254,500)
Net assets		**792,156**	1,176,065	1,200,508
Share capital and reserves				
Called up share capital	9	**61,249**	61,249	61,249
Share premium account		**52,184**	52,184	52,184
Merger reserve		**905,890**	905,890	905,890
Other reserve		**40,143**	40,143	40,143
Share-based payment reserve		**(11,995)**	(17,696)	(10,280)
Profit and loss account		**(255,315)**	134,295	151,322
		792,156	1,176,065	1,200,508

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

The financial statements on pages 133 to 145 were approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity
At 31 December 2015

	Share capital US$'000	Share premium account US$'000	Merger reserve US$'000	Other reserve US$'000	Share-based payments reserve US$'000	Profit and loss account US$'000	Total US$'000
At 1 January 2014	61,249	52,184	905,890	40,143	(10,280)	151,322	1,200,508
Loss for the year	–	–	–	–	–	(17,027)	(17,027)
Total comprehensive income for the year	–	–	–	–	–	(17,027)	(17,027)
Share-based payment charge	–	–	–	–	8,468	–	8,468
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(15,884)	–	(15,884)
At 31 December 2014	61,249	52,184	905,890	40,143	(17,696)	134,295	1,176,065
Loss for the year	–	–	–	–	–	(389,610)	(389,610)
Total comprehensive income for the year	–	–	–	–	–	(389,610)	(389,610)
Share-based payment charge	–	–	–	–	5,701	–	5,701
At 31 December 2015	**61,249**	**52,184**	**905,890**	**40,143**	**(11,995)**	**(255,315)**	**792,156**

Company Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 US$'000	2014 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax	2	**(388,219)**	(18,470)
Impairment of available-for-sale investments	3	**566**	448
Impairment of investment in subsidiaries	3	**374,892**	–
Fair value movement in financial asset		**(250)**	–
Unrealised exchange losses		**11,045**	13,337
Net finance costs		**(131)**	6,140
Operating profit before working capital changes		**(2,097)**	1,455
Increase in amounts due by group companies		**61,250**	(605,035)
Increase in trade and other receivables		**30**	–
Decrease in trade and other payables		**27**	(171)
Net cash flows from operating activities		**59,210**	(603,751)
FINANCING ACTIVITIES			
Proceeds from bond issue		**–**	650,000
Interest paid		**(58,625)**	(37,802)
Other finance costs paid		**(1,770)**	(7,647)
Net cash flows from financing activities		**(60,395)**	604,551
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,185)**	800
Cash and cash equivalents at 1 January		**1,468**	668
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**283**	1,468

Notes to the Financial Statements
For the year ended 31 December 2015

1. Corporate information
The Company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 16 March 2016.

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').

2. Summary of significant accounting policies
Basis of preparation
The separate financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). These financial statements are prepared under the historical cost basis and in accordance with the Companies Act 2006. 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.

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. Transition tables showing all material adjustments are disclosed in note 15.

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 2015 of US$389,610,000 (2014: loss US$17,027,000). There were no other recognised gains or losses in the period (2014: nil).

Going concern concept
The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. See page 44 in the Financial Review for further details.

The accounting policies which follow set out those policies which apply in preparing financial statements for the year ended 31 December 2015.

New standards and interpretations
There were no new and revised IFRS's and interpretations which have impacted on the Company's financial statements nor accounting policies.

Standards issued but not yet effective
Standards issued and relevant to the Company, but not yet effective up to the date of issuance of the Company's financial statements, are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company 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 Company's accounts in the period of initial application.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have any impact on the Company. They include:

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statements of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to the financial statements; and
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

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

Going concern
The going concern assumption is highly sensitive to economic conditions. The Company closely monitors and manages its funding position and liquidity risk throughout the year including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

Impairment of investments in subsidiaries
Determination of whether investments have suffered any impairment requires an estimation of the assets recoverable value. The recoverable value is based on the discounted cashflows expected to arise from the subsidiaries oil and gas assets, using asset-by-asset life of field projections as part of the Group's assessment for the impairment of the oil and gas assets.
See Group critical accounting estimates and judgements.

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

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

Foreign currencies
Transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the Statement of Comprehensive Income.

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

Financial assets
Financial assets are classified, at initial recognition, 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. All financial 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.

Subsequent measurement of financial assets depends on their classification as described below:
- financial assets at fair value through profit or loss
- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets

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 at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised immediately in the income statement.

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.

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

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

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

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

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

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

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company financial statements. Deferred tax is measured on an undiscounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Notes to the Financial Statements continued

For the year ended 31 December 2015

2. Summary of significant accounting policies continued

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

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

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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.

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 18 of the Group financial statements.

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

3. Investments

	Subsidiary undertakings US$'000	Available-for-sale investments US$'000	Total US$'000
Cost			
At 1 January 2014	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
Additions	5,701	–	5,701
At 31 December 2015	**1,362,641**	**1,797**	**1,364,438**
Provision for impairment			
At 1 January 2014	176,000	659	176,659
Write-off of investment previously impaired	(176,000)	–	(176,000)
Impairment charge for the year	–	449	449
At 31 December 2014	–	1,108	1,108
Impairment charge for the year	374,892	566	375,458
At 31 December 2015	**374,892**	**1,674**	**376,566**
Net book value			
At 31 December 2015	**987,749**	**123**	**987,872**
At 31 December 2014	1,356,940	689	1,357,629
At 31 December 2013	1,348,369	149	1,348,518

During the year ended 31 December 2015, an impairment of the investment in the Company's subsidiaries of US$374,892,000 has been recognised due to the continuing fall in the oil price during the year and the impact on the carrying value of the subsidiaries.

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 (GKA) 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 AS to EnQuest Global Limited, another subsidiary entity.

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 2015 are provided in note 28 of the Group financial statements.

The interest in other listed investments at the end of the year is part of the Group's 5.11% investment in the ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales. Refer to note 4 of the Group financial statements for more detail on the impairment.

4. Cash at bank and in hand

	2015 US$'000	2014 US$'000
Cash at bank and in hand	**283**	1,468

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

	2015 US$'000	2014 US$'000
Due within one year		
Amounts due from subsidiaries	**3,097**	13,355
Prepayments	**30**	–
Other financial assets	**250**	–
	3,377	13,355

Notes to the Financial Statements continued
For the year ended 31 December 2015

5. Debtors continued

	2015 US$'000	2014 US$'000
Due after one year		
Amounts due from subsidiaries	**894,820**	706,390

During the year, contingent consideration receivable on the disposal of the Slovenian Petisovci asset to Ascent in 2011 was converted into a convertible loan note. The fair value of the convertible loan note at 31 December 2015, is US$250,000 (2014: nil). The loan note is due to mature in November 2016.

6. Deferred tax
The Company has unused UK mainstream corporation tax losses of US$36,065,000 (2014: US$16,623,000) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

7. Creditors: amounts falling due within one year

	2015 US$'000	2014 US$'000
Bond interest	**12,319**	12,689
Amounts due to subsidiaries	**211,026**	6,931
Accruals	**570**	596
	223,915	20,216

8. Creditors: amounts falling due after one year

	2015 US$'000	2014 US$'000
Bonds	**870,281**	882,561

At 31 December 2015, the Company held a US$650,000,000 high yield bond which matures in 2022 and pays a coupon of 7% bi-annually in April and October. In addition, the Company also held a 5.5% Sterling Retail Bond of £155,245,000. The bond pays a coupon of 5.5% payable bi-annually in February and August and matures in 2022.

9. Called up share capital

	2015 US$'000	2014 US$'000
Allotted, called up and fully paid 802,660,757 (2014: 802,660,757) Ordinary shares of £0.05 each	**61,249**	61,249

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 2015 or 2014.

At 31 December 2015 there were 26,702,378 shares held by the Employee Benefit Trust (2014: 29,691,691). The decrease is due to the use of shares to satisfy awards made under the Company's share-based incentive schemes.

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

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

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

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

Share-based payment plan information is disclosed in note 18 of the Group financial statements.

11. Related party transactions

Related parties comprise associated companies, directors and key management personnel of the Company and companies of which they are principal owners. All purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Company's management.

Details of significant related party transactions entered into during the year are as follows:

	2015 US$'000	2014 US$'000
EnQuest Heather Limited – management recharge	**2,660**	3,060
EnQuest ENS Limited – management recharge	**300**	111
EnQuest Global Limited – management recharge	**626**	–
EnQuest Production Limited – management recharge	**59**	–
EnQuest NWO Limited – management recharge	**–**	87
EnQuest Petroleum (Sabah) Limited – management recharge	**10**	14
EnQuest Petroleum Production Malaysia Limited – management recharge	**–**	198
EnQuest Global Limited – transfer of shares in subsidiary	**–**	343
EnQuest North Sea BV – transfer shares in investment	**–**	(989)
EnQuest Heather Limited – overheads recharged	**545**	–
EnQuest Heather Limited – funding	**(13,056)**	–
EnQuest Britain Limited – acquisition of subsidiary	**–**	(446)
EnQuest Britain Limited – overheads recharged	**(7,659)**	(4,659)
EnQuest Britain Limited – intercompany interest received	**60,499**	47,207
EnQuest Britain Limited – intercompany interest paid	**–**	(7,147)
EnQuest Britain Limited – funding	**(19,452)**	560,450

Balances with related parties included in the statement of financial position are as follows:

	2015		2014	
	Amounts due to subsidiaries US$'000	**Amounts due from subsidiaries US$'000**	Amounts due to subsidiaries US$'000	Amounts due from subsidiaries US$'000
EnQuest ENS Limited	**–**	**412**	–	111
EnQuest Marketing and Trading Limited	**–**	**340**	–	337
EnQuest Britain Limited	**–**	**694,785**	–	707,217
EnQuest Heather Limited	**(6,134)**	**–**	–	6,377
EnQuest Global Limited	**–**	**850**	–	263
EnQuest Petroleum Production Malaysia Limited	**–**	**169**	–	198
EnQuest Petroleum (Sabah) Limited	**(1,430)**	**–**	(1,440)	–
EnQuest NWO Limited	**–**	**21**	(5,492)	–
EnQuest Norge A/S	**(3)**	**–**	–	–
EnQuest Petroleum Development Malaysia SDN BH	**–**	**451**	–	–
EnQuest Production Limited	**(5,476)**	**–**	–	–
Group relief	**–**	**2,906**	–	5,244
	(13,043)	**699,934**	(6,932)	719,747

Compensation of key management personnel

The key management personnel in the Group are also key management of the ultimate holding company and fellow subsidiaries. Details of Directors' remuneration are provided in the Directors' Remuneration Report and details of key management personnel compensation are disclosed in note 25 to the Group consolidated accounts.

The Directors do not believe that it is practicable to apportion this amount between their services as key management of the Group and their services as key management of the ultimate holding company and fellow subsidiaries.

12. Risk management and financial instruments

Risk management objectives and policies

The Company's activities expose it to various financial risks associated with fluctuations in foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks at a Group level and these are summarised below.

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the Company's functional currency. The Company manages this risk by converting US$ receipts at spot rates periodically and as required for payments in other currencies. Approximately 100% (2014: 100%) of costs are denominated in currencies other than the functional currency.

Notes to the Financial Statements continued

For the year ended 31 December 2015

12. Risk management and financial instruments continued

The following table summarises the impact on the Company's pre-tax profit and equity (due to change in the fair value of monetary assets and liabilities) of a reasonably possible change in United States dollar exchange rates with respect to different currencies:

	Pre-tax profit/loss		Equity	
	+10% US dollar rate increase US$'000	-10% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	-10% US dollar rate decrease US$'000
31 December 2015	**(21,827)**	**21,827**	**(21,827)**	**21,827**
31 December 2014	(22,789)	22,789	(22,789)	22,789

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of funding from related parties to reduce its exposure to liquidity risk. The Company monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its liquid balances with related parties.

The maturity profiles of the Company's financial liabilities at 31 December 2015 are as follows:

Year ended 31 December 2015	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Bonds	–	58,140	58,140	174,419	955,223	1,245,922
Amounts due from subsidiaries	211,026	–	–	–	–	211,026
Trade payables and accrued expenses	570	–	–	–	–	570
	211,596	**58,140**	**58,140**	**174,419**	**955,223**	**1,457,518**

Year ended 31 December 2014	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Bonds	–	58,813	58,813	176,439	1,017,266	1,311,331
Amounts due from subsidiaries	6,931	–	–	–	–	6,931
Trade payables and accrued expenses	597	–	–	–	–	597
	7,528	58,813	58,813	176,439	1,017,266	1,318,859

Capital management

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to the equity holders of the Company, comprising issued capital, reserves and retained earnings as in the Company Statement of Changes in Equity on page 134.

The primary objective of the Company'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 Company 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 26 to the financial statements provides further details of the Company's financing activity.

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:

	2015 US$'000	2014 US$'000
Bond net (A)(i)	**879,688**	882,561
Cash and short term deposits	**(283)**	(1,468)
Net debt/(cash) (B)	**879,405**	881,093
Equity attributable to EnQuest PLC shareholders (C)	**792,156**	1,176,065
Loss for the year attributable to EnQuest PLC shareholders (D)	**(389,611)**	(16,578)
Gross gearing ratio (A/C)	**1.11**	0.75
Net gearing ratio (B/C)	**1.11**	0.75
Shareholders' return on investment (D/C)	**(49.2%)**	(1.4%)

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

13. Auditor's remuneration

The Company paid US$15,000 (2014: 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.

14. Post balance sheet events

Refer to note 27 of the Group financial statements.

15. Transition to FRS 101

For all periods up to and including year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for years beginning on or after 1 January 2014 and the significant accounting policies meeting these requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

Reconciliation of equity as at 1 January 2014	Note	UK GAAP US$'000	FRS 101 reclassifications/ re measurements US$'000	FRS 101 US$'000
Fixed assets				
Investments	1	1,349,177	(659)	1,348,518
Current assets				
Debtors				
– due within one year		224,681	–	224,681
Cash at bank and in hand		668	–	668
		225,349	–	225,349
Creditors: amounts falling due within one year		(118,859)	–	(118,859)
Net current assets		106,490	–	106,490
Total assets less current liabilities		1,455,667	(659)	1,455,008
Creditors: amounts falling due after one year		(254,500)	–	(254,500)
Net assets		1,201,167	(659)	1,200,508
Share capital and reserves				
Called up share capital		61,249	–	61,249
Share premium account		52,184	–	52,184
Merger reserve		905,890	–	905,890
Other reserve		40,143	–	40,143
Share-based payment reserve		(10,280)	–	(10,280)
Profit and loss account		151,981	(659)	151,322
		1,201,167	(659)	1,200,508

Notes to the Financial Statements continued

For the year ended 31 December 2015

15. Transition to FRS 101 continued

Reconciliation of equity as at 31 December 2014	Note	UK GAAP US$'000	FRS 101 reclassifications/ re measurements US$'000	FRS 101 US$'000
Fixed assets				
Investments	1	1,358,737	(1,108)	1,357,629
Current assets				
Debtors				
– due within one year		13,355	–	13,355
– due after one year		706,390	–	706,390
Cash at bank and in hand		1,468	–	1,468
		721,213	–	721,213
Creditors: amounts falling due within one year		(20,216)	–	(20,216)
Net current assets		700,997	–	700,997
Total assets less current liabilities		2,059,734	(1,108)	2,058,626
Creditors: amounts falling due after one year		(882,561)	–	(882,561)
Net assets		1,177,173	(1,108)	1,176,065
Share capital and reserves				
Called up share capital		61,249	–	61,249
Share premium account		52,184	–	52,184
Merger reserve		905,890	–	905,890
Other reserve		40,143	–	40,143
Share-based payment reserve		(17,696)	–	(17,696)
Profit and loss account		135,403	(1,108)	134,295
		1,177,173	(1,108)	1,176,065

(1) Valuation of financial assets

Previously under UK GAAP, investments are held at cost less provisions for any permanent diminution in value. Under IFRS, investments are initially recognised at cost and subsequently are usually measured at their fair value at the balance sheet date unless held to maturity. Part of the Company's investments consist of listed investments which have been designated as 'available-for-sale' investments and accordingly are included in the balance sheet at market value with any impairment losses taken to the income statement. The impact has been to decrease the balance sheet carrying value of available-for-sale investments at 1 January 2014 by US$659,000 and at 31 December 2014 by US$1,108,000.

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Financial Calendar
1 June 2016: 2016 Annual General Meeting
6 September 2016: 2016 Half Year Results (subject to change)

Glossary
For a full list of Company definitions, please visit the glossary in the media centre section of our website www.enquest.com.

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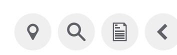

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