Differential capability

EnQuest PLC
Annual Report
& Accounts 2016

Differential capability

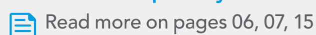
EnQuest is an oil and gas production and development company, using its differential capabilities to create value from investing safely in maturing and underdeveloped oil and gas assets.

Strategic priorities in the current oil price environment
Since the start of the lower oil price environment which began in 2014, EnQuest has prioritised its strategic focus on the following areas: delivering on execution targets, streamlining operations and strengthening the balance sheet.

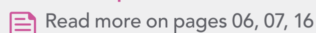
Read more on pages 06, 07, 10, 12, 20, 30

In the continuing challenging macro environment and building on its successes in 2016, EnQuest is focused on its differential capabilities, low cost approach to operatorship, and financial discipline. EnQuest believes that these are critical enablers for its investment proposition.

Differential capability

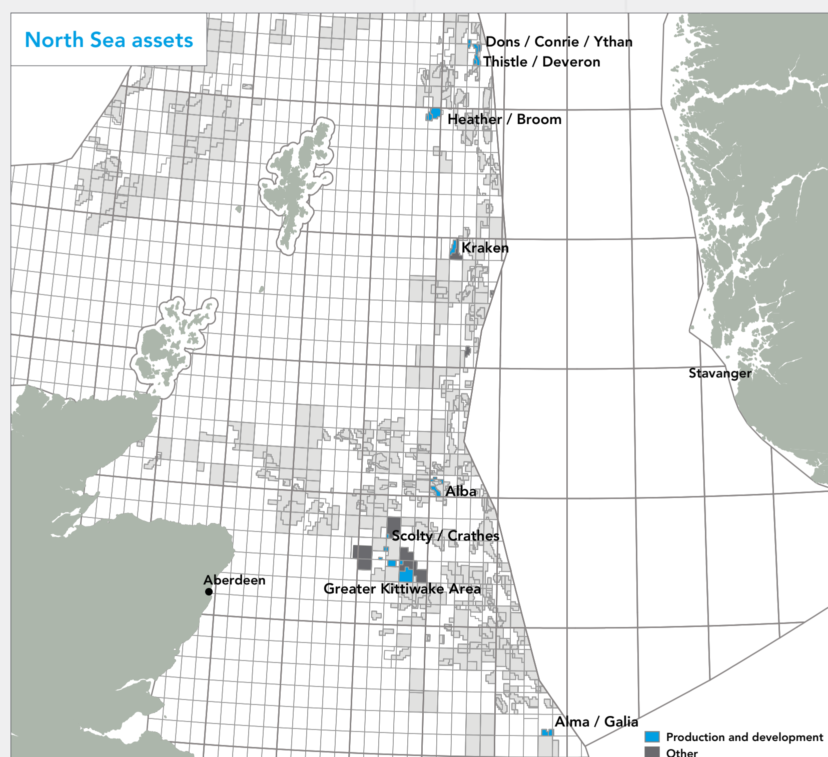

Read more on pages 06, 07, 15

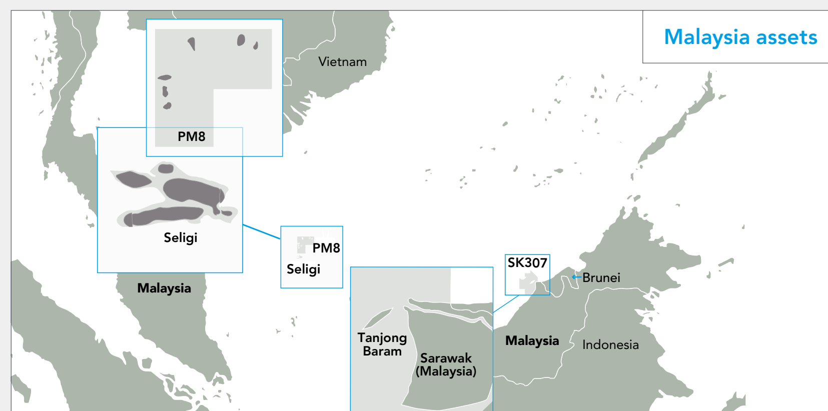
Low cost operator


Read more on pages 06, 07, 16

Financial discipline

Read more on pages 06, 07, 17





Highlights

2016 Performance

Production

39,751 Boepd

Cash capex[1]

$609.2m

Unit opex

$24.6/bbl

Read more on KPIs on page 09

2017 Outlook ranges[2]

Production

45,000 to 51,000 Boepd

Cash capex

$375m to $425m

Unit opex

$21/bbl to $25/bbl
including Kraken

2 Including the impact of first oil from Kraken, excluding the proposed acquisition of interests in the Magnus oil field and the Sullom Voe Terminal.

Read more on page 14

Key risks for 2017

- A material delay to achieving first oil, or materially lower than expected production performance at the Kraken field
- Unexpected shutdowns on producing assets

Read more on pages 40–47

2016 Statutory reporting metrics

- Revenue and other operating income $798.1m
- Net cash from operating activities $379.5m
- Net assets $818.9m

Read more from page 90 onwards

2016 Financial restructuring

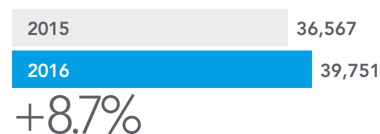
- Comprehensive package
  – Amended corporate credit facility with extended maturity
  – Split into $1,125m term loan and $75m revolving credit facility
  – Amended notes with extended maturities and interest payment in kind provision linked to the price of oil
  – £82m gross aggregate proceeds from placing and open offer
- Significant improvement in liquidity
- High level of support
- Well placed to deliver value

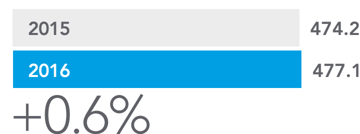
Read more on pages 10, 12, 32

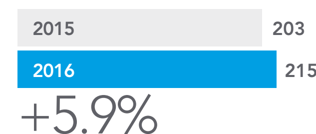
2017 Proposed acquisition of interests in the Magnus oil field and the Sullom Voe Terminal

- Innovative structure
  – Base consideration funded from asset cash flow
  – Additional consideration in relation to decommissioning capped at total of positive cash flow
  – Option to increase ownership from 25% to 100%
- Adding reserves and production
- Sharing increased cash flows
- Good operational fit
- Recognises EnQuest as leading operator of maturing assets

Read more on pages 13, 21, 27







1 Cash capex is stated net of proceeds received from the disposal of tangible and intangible fixed assets of $1.5 million (2015: $75.5 million).

3 EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gain/loss on foreign currency derivatives related to capital expenditure. The prior year EBITDA has been restated on a comparable basis by adding back realised losses on foreign currency derivatives related to capital expenditure of $9.4 million.

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Strategic Report

This strategic report includes details of EnQuest's long term track record, its performance since the last Annual Report and its current outlook. It also covers the macro environment, EnQuest's updated strategic positioning, evolving business model, investment proposition, enabling capabilities and values, and analysis of key risks. Main sections include the Chairman's statement, the Chief Executive's report, also the Operating, Financial and Corporate responsibility reviews.

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2016 achievement highlights

- Acquired additional 10.5% of working interest in the Kraken development, with effect from 1 January 2016, from First Oil plc for a nominal consideration.
- Excellent drilling of the Scolty/Crathes development wells led to their completion ahead of schedule and under budget.
- In Q2 2016, EnQuest announced that the Eagle well had been confirmed as a discovery.
- By the end of the summer, a total of four producer and four injector wells had been safely drilled and completed on Kraken, with results meeting or exceeding pre-drill predictions.
- H1 2016 production of an average of 42,520 Boepd was up 43% on H1 2015.
- H1 2016 unit opex was down to $23/bbl, ahead of target and down 50% on H1 2014.
- In October, the Kittiwake platform achieved 11 years without a Lost Time Incident ('LTI').
- The Scolty/Crathes development was brought online in November, ahead of schedule and under budget.
- The Kraken FPSO vessel sailed away from Singapore in November, en route for the UK North Sea.
- EnQuest's proposed financial restructuring was successfully completed in November, with high levels of support.
- The Alma/Galia K7 well was brought onstream late in Q4.
- On days in early December, PM8/Seligi achieved gross production levels of c.20,000 Boepd, the highest levels since EnQuest took over operatorship.
- Across 2016, EnQuest announced a further $375 million reduction in Kraken's gross full cycle capital expenditure estimates, mainly as a result of better performance on drilling and subsea production systems.

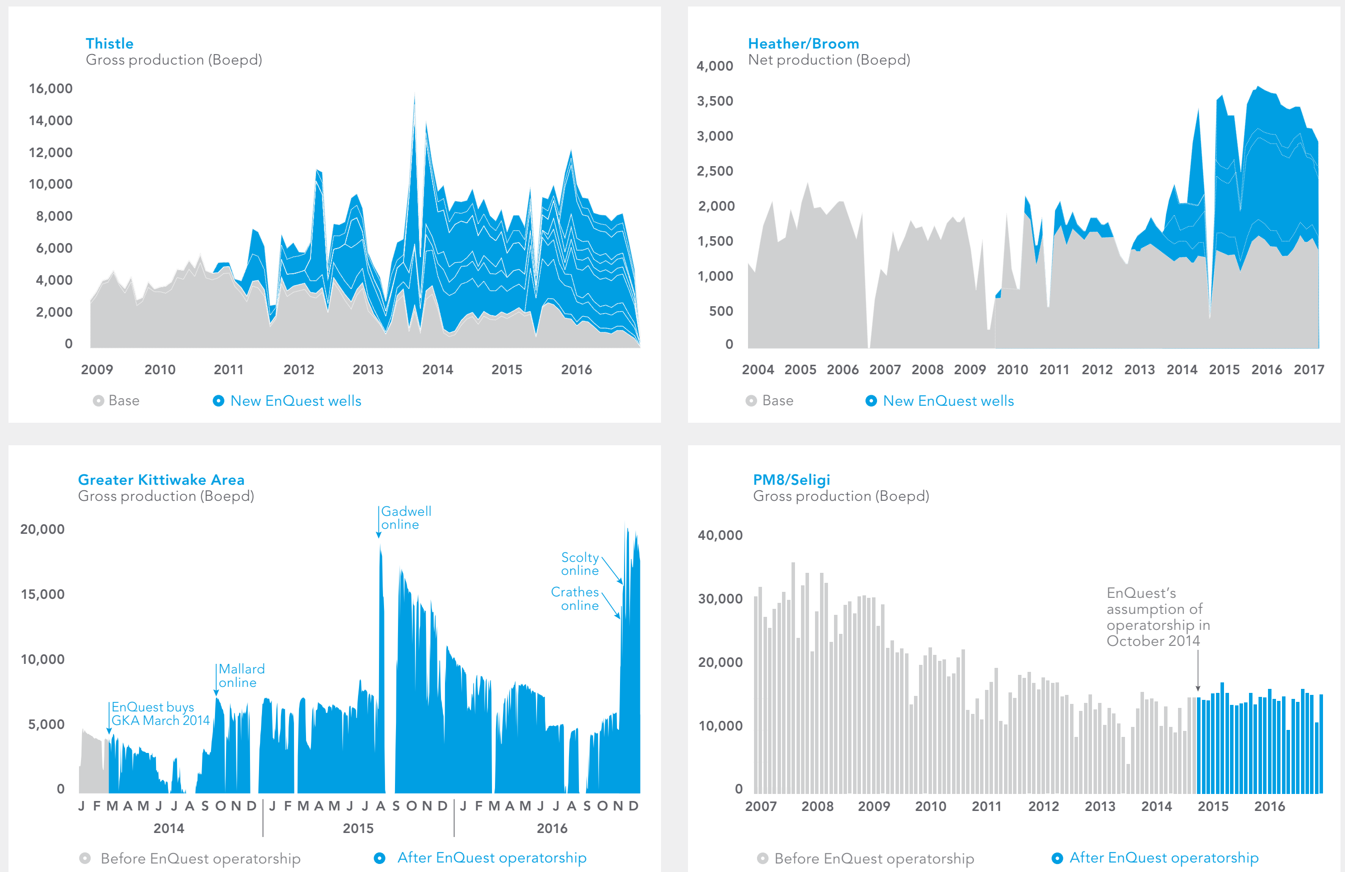
How EnQuest creates value: Track record

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

EnQuest field optimisation: In the current oil price environment in which development of new production is constrained, EnQuest's low cost approach is a competitive advantage.

For more on EnQuest's low cost approach see pages 07, 15, 16, 17

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.



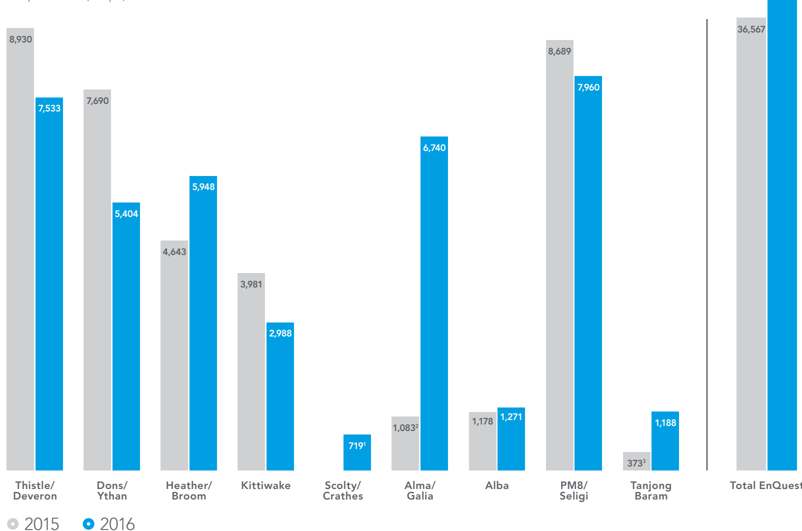
In 2010, EnQuest's work programme for Thistle included modern seismic, the successful reactivation of the old drill rig, the drilling of new wells, a major power supply upgrade, the introduction of new and simplified process controls and safety systems, and integrity work on the platform topsides. These measures returned Thistle to production levels it had not achieved since the 1990s. In 2016, seven years after EnQuest started this programme, Thistle was still delivering very high levels of production efficiency. 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 – which have all materially increased production levels. Heather/Broom also achieved high levels of production efficiency in 2016.

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. At the Greater Kittiwake Area hub, EnQuest's first priorities were to rejuvenate the well stock, to raise production efficiency and to reduce unit operating costs significantly, from over $100/bbl at the time of the acquisition. The Mallard well was worked over, the Gadwall well was side-tracked and dissolver treatments were implemented at Goosander, all of which drove gross production from 2,000 Boepd levels around the time EnQuest took over operatorship, to between 14,000 and 16,000 Boepd by the last quarter of 2015. Production efficiency was taken from very low levels to the very high levels which are regularly achieved on EnQuest assets, with unit operating costs

Asset base and production

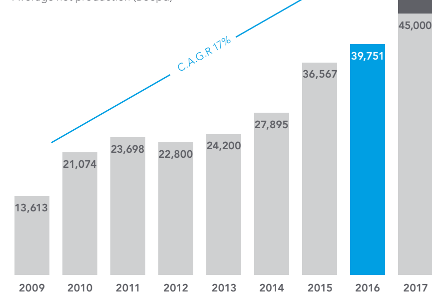
EnQuest's principal UK assets at the end of 2016 were its interests in the producing operated oil fields Heather/Broom, Thistle/Deveron, the Dons area, the Greater Kittiwake Area, Alma/Galia and Scolty/Crathes. In addition, EnQuest had interests in the Kraken development and also a non-operated interest in the producing Alba oil field. In Malaysia, EnQuest's operated assets comprise the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract.

Production results 2016
Production growth of 9%



1 Net production since first oil on 21 November 2016, averaged over the 12 months to the end of December 2016; equates to an average of 6,422 Boepd from first oil to the end of 2016.
2 Net production since first oil on 27 October 2015, averaged over the 12 months to the end of December 2015.
3 Net production since first production in June 2015, averaged over the 12 months to end of December 2015.

Delivering strong compound annual growth rates
c.17% C.A.G.R. by 2017*



* Guidance range for 2017 is an average of between 45,000 Boepd and 51,000 Boepd.

2016 production highlights

- North Sea up 11.3%, including the first full year of production from Alma/Galia
  - Heather/Broom up 28.1%
  - Scolty/Crathes delivered average 6,422 Boepd after first oil
- On days in early December 2016, PM8/Seligi delivered over 20,000 Boepd gross, its highest production yet under EnQuest operatorship.

substantially down, to below $30/bbl. In November 2016, EnQuest delivered first oil from the Scolty/Crathes development, tied back to GKA, generating combined gross production of over 20,000 Boepd on individual days in December 2016. The production from the Scolty/Crathes fields themselves, bringing this development onstream also extends the life of the GKA hub to at least 2025.

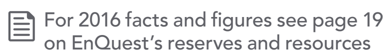
At PM8/Seligi in Malaysia, EnQuest assumed operatorship in October 2014 and through an early programme focusing on facility integrity, gas compressor reliability and idle well restoration, quickly increased gross production from 12,400 Boepd to 15,100 Boepd. This has been achieved before any new drilling has taken place. Production efficiency has also been enhanced here. In 2016, production was again strong, a substantial achievement for a maturing field with wells which have high natural decline rates and in a year with no drilling, a further testament to the success of the programme of well intervention and topsides work, resulting in high levels of production efficiency.

Strategy and business model

Strategy

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

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 and disposals.


For 2016 facts and figures see page 19 on EnQuest's reserves and resources

Business model

Evolving priorities in the current oil price environment

Since the start of the lower oil price environment in 2014, EnQuest has prioritised the implementation of its business model on the following areas:

Delivering on execution

Read more on pages 10, 12, 20, 30

Streamlining operations

Read more on pages 10, 12, 20, 30

Strengthening the balance sheet

Read more on pages 10, 12, 20, 30

In the continuing challenging macro environment and building on its successes in 2016, EnQuest has focused on its differential capabilities, low cost approach to operatorship, and financial discipline. EnQuest believes that these are critical enablers for its investment proposition.

EnQuest's model is based on a low cost approach to its business. Its differential technical capabilities enable it to focus on low cost development and production options, its approach to operatorship delivers low levels of unit operating cost and its tight financial discipline prioritises low cost, cash flow generative investment.

Differential capability

EnQuest has the right mix of integrated technical capabilities, high levels of production efficiency and cost control to realise value from the substantial production and development opportunities in the assets it owns in the maturing North Sea and Malaysian basins.

Read more on page 15

Low cost operator

The oil price environment of recent years acted as a catalyst, driving forward innovative industry leading initiatives which EnQuest had in place to streamline its operations. A newer lower cost structure and approach has been institutionalised in EnQuest's ways of doing business.

Read more on page 16

Financial discipline

As EnQuest moves from a period of heavy investment to one focused on realising production potential from existing resources and capabilities, it will maintain financial discipline With improved liquidity and operating cash margins, EnQuest's performance is focused on driving cash flow.

Read more on page 17

Scolty/Crathes onstream ahead of schedule and on budget

Unit opex down 42% since 2014

Gross Kraken capex down from c.$3.2 billion to c.$2.5 billion

What makes EnQuest different and why its business model works

Realising value through capability

EnQuest has the right mix of capabilities, to realise safely the substantial production potential in its existing base of maturing assets and beyond.

Through its proven skills, EnQuest delivers industry leading levels of production efficiency and cost control, creating opportunities for it to add value to the assets which it operates.

Capabilities

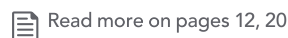
EnQuest has the full spectrum of integrated technical capabilities needed:

- To extend field lives: Thistle/Deveron, Heather/Broom, GKA, PM8/Seligi
- To deliver oil field developments: The Don fields, Ythan, Alma/Galia, Tanjong Baram, Kraken
- To create solutions for fields previously too marginal to develop: Scolty/Crathes

EnQuest's capabilities combine subsurface, operations, facilities planning and drilling areas of expertise, including:

- Infill drilling, subsurface skill in identifying well targets
- Newer technology, new seismic
- Depth in engineering, execution and operations

EnQuest has an in-house focused organisational structure and is the operator of 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 integrated skillsets to execute its business plans successfully.


Read more on pages 12, 20

EnQuest's model is based on a low cost approach to its business

EnQuest's integrated technical teams enable it safely to deliver:

- Redesign and upgrade of 'used' facilities
- Re-use of existing infrastructure; tie-backs
- Idle well revitalisation
- Innovative and cost efficient solutions
- Low risk, near field development and appraisal
- Process simplification

With no harm to people and with respect for the environment. EnQuest has also institutionalised a low cost operator structure and seeks a low level of exposure to decommissioning liabilities.

EnQuest believes that these technical skills, its operational scale and its high levels of operating and cost efficiency, all leave it well positioned to deliver its long term sustainable growth strategy.

Read more on pages 12, 15, 16, 17, 20

Industry endorsement of EnQuest's differential capabilities:

Talking with reference to EnQuest's proposed acquisition of interests in the Magnus oil field and the Sullom Voe Terminal from BP, Mark Thomas, BP North Sea Regional President said: *"Sullom Voe and Magnus have been great businesses for BP, but to maximise the economic life of these important assets, we believe this deal will offer them a better long-term future. With their integrated skills, operational scale, cost structures and high levels of operating efficiency we have seen what EnQuest can do on the Thistle, Deveron and Don fields that were previously operated by BP. We believe this is a good example of having the 'right assets' in the 'right hands', offering new opportunities for the assets and benefitting the UKCS, in the spirit of Maximising Economic Recovery ('MER UK')."*

EnQuest Values

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

EnQuest's people are unified by a common set of values; these values differentiate us as an organisation and are enablers for our investment proposition.

Key risks

The Group's current strategic focus is on deleveraging and strengthening its balance sheet, with the long term goal of delivering value to its shareholders. The key risks which the Group faces in achieving this goal are a prolonged low oil price environment (or a sustained decline in oil prices) and any material delay to achieving first oil or materially lower than expected production performance at the Kraken field. For further information, please see the 'Risks and uncertainties' section on pages 40–47.

EnQuest people

I enjoy working for a company that simply does things differently. At EnQuest there is a great culture of delivering results through collective innovation, agility and focus. This exciting environment is a particularly rewarding one in which to do my role, and one in which I'm empowered to strive for success and contribute to the Company's competitive advantage.

Dave Gibson
Operations Superintendent, Thistle

Key performance indicators

2016 was another challenging year for EnQuest, with continuing pressure from the oil price environment. Accordingly, EnQuest has delivered further reductions in operating and capital expenditure and continued to streamline operations. EnQuest's low cost operating structure and low cost approach to operatorship are integral to its way of doing business, whilst always retaining safe operations as the number one priority. It was a year characterised by both operational and financial achievements, with the successful financial restructuring being essential for the strength of the balance sheet.

The average production of 39,751 Boepd in 2016 included good performances at Heather/Broom and at PM8/Seligi, and a promising start from Scolty/Crathes, following early delivery of first oil. A first full year of production from Alma/Galia increased UKCS production over the prior year, despite productivity from Alma/Galia being negatively impacted by well performance. Overall production was also affected by extended shutdowns. The Kraken development remained under budget and on course for first oil in Q2 2017, with the drilling programme ahead of schedule.

To help protect its capital investment programme, EnQuest had entered into a substantial hedging programme for 2016; this contributed $255.8 million to EBITDA of $477.1 million in 2016. Cost control and efficient management of operations drove further material cost reductions; average 2016 full year unit opex was $24.6/bbl, compared to $29.7/bbl in 2015 and $42.1/bbl in 2014. 2016 cash capex was $609.2 million, down 19% on 2015; this final 2016 capex total was well down on the original estimate of between $700 million and $750 million, reflecting ongoing reduction initiatives throughout the year, including deferral of payments for Kraken and Scolty/Crathes.

End 2016 net 2P reserves of 215 MMboe represented a 6% increase on the 203 MMboe at the end of 2015. This reflected the impact of EnQuest producing 13 MMboe of hydrocarbons in 2016 and the acquisition of an additional 10.5% interest in the Kraken development from First Oil at the start of 2016. There were also increased revisions to reserve estimates at the Thistle and Heather hubs, both due to improved predicted performance of infill wells based on reservoir simulation model outputs and decreases at Alma/Galia due to the levels of well performance. By the end of 2016, EnQuest had therefore converted into flowing barrels the equivalent 84% of the 81 MMboe of reserves it had at inception.

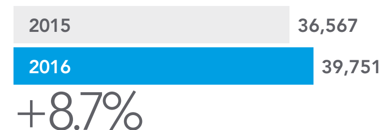
In 2017, EnQuest's top operational priority is safely bringing the Kraken development onstream on schedule. As EnQuest begins to move beyond an extended period of heavy capital investment, its strategic priorities continue to be to increase production by delivering on operational and development execution, whilst also continuing to reduce the operating cost base. This combination of financial and operational discipline will result in increasing cash flows and in the deleveraging of the balance sheet, which continue to be the high priorities in the near term.

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

Key performance indicators	2016	2015	2014
North Sea Lost Time Incident Frequency ('LTIF')	**0.82**	2.14	0.00
Malaysia LTIF	**0.00**	0.00	N/A
Production (Boepd)	**39,751**	36,567	27,895
Net 2P reserves (MMboe)	**215**	203	220
Business performance data:			
Revenue and other operating income[1] ($ million)	**849.6**	906.6	1,009.9
Realised blended average oil price per barrel[1] ($)	**63.8**	72.0	103.9
Opex per barrel (production and transportation costs) ($)	**24.6**	29.7	42.1
EBITDA[2] ($ million)	**477.1**	474.2	552.1
Cash capex[3] on property, plant and equipment oil and gas assets ($ million)	**609.2**	751.1	1,058.2
Reported data:			
Cash generated from operations ($ million)	**408.3**	221.7	632.2
Net debt ($ million)	**1,796.5**	1,548.0	967.0

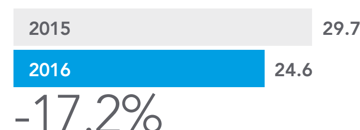
1 Including revenue of $255.8 million in 2016 associated with EnQuest's oil price hedges (2015: $261.2 million, 2014: $31.7 million).
2 EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gain/loss on foreign currency derivatives related to capital expenditure. EBITDA for prior periods has been restated on a comparable basis by adding back realised gain/(loss) on foreign currency derivatives related to capital expenditure (2015: loss of $9.4 million, 2014: gain of $28.9 million).
3 Net of proceeds from disposal of $1.5 million (2015: $75.5 million, 2014: $2.2 million).

Production (Boepd)



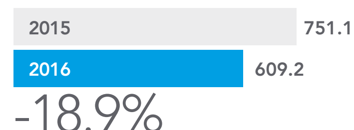
+8.7%

Opex per barrel ($)



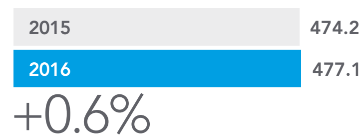
-17.2%

Cash capex[3] ($ million)



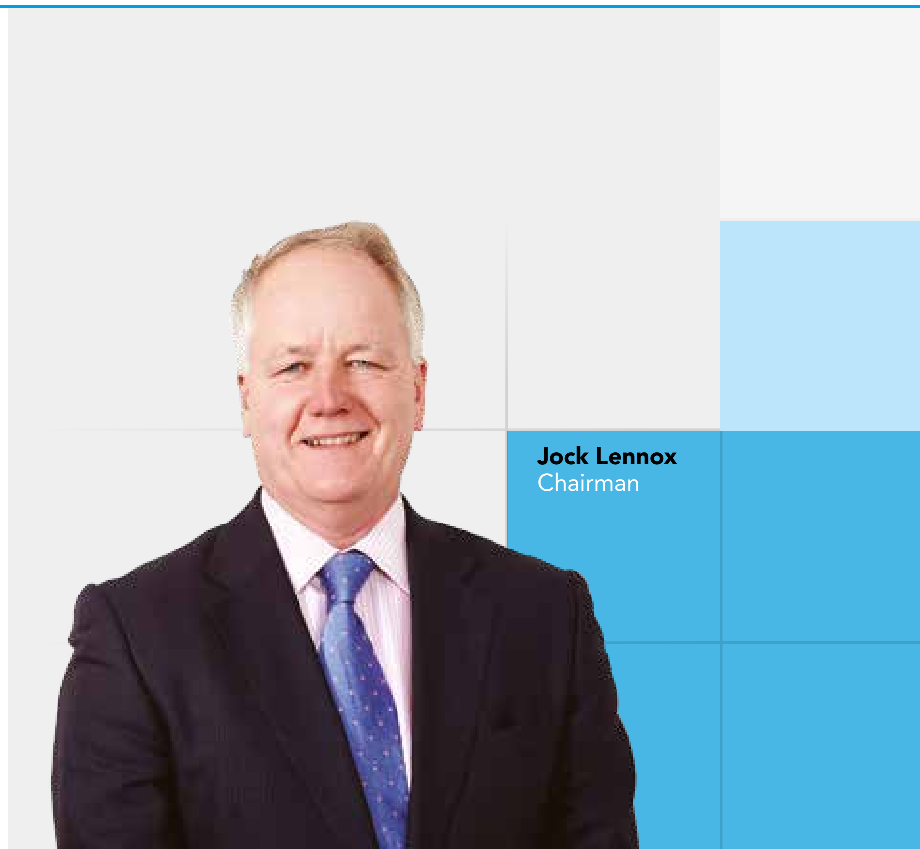
-18.9%

EBITDA[2] ($ million)



+0.6%

Chairman's statement



Jock Lennox
Chairman

"EnQuest has a very strong team of people and has an asset base with material growth potential."

EnQuest in 2016

When I became Chairman of EnQuest in September 2016, I said that EnQuest's priority was to deliver a business and a balance sheet which were robust in the prevailing oil price environment. In November 2016, EnQuest was pleased to announce the successful completion of a financial restructuring designed to deliver such a robust balance sheet. This was a comprehensive package of measures which, combined with an extensive and ongoing cost saving programme, put EnQuest's business on a strong footing, well placed to deliver the Kraken development and to deliver value to shareholders in the medium term.

I also said that I was pleased to become Chairman of a company with an asset base which has material growth potential and with such a strong team of people. In 2016, our people again performed well in a challenging environment, with EnQuest delivering production up 9% on 2015, whilst at the same time significantly further reducing costs, with unit operating costs down 17% on the prior year.

With the combined effect of increased production and acquisition related increases, EnQuest ended 2016 with a net 2P reserve base of 215 MMboe, ahead of the 203 MMboe position at the end of 2015. This represents an average of 15% growth per annum since EnQuest's formation seven years ago and a current reserve life of 17 years.

Industry context

EnQuest's low cost capabilities have always been central to its business model. The macro environment since 2014 has acted as a catalyst for the North Sea oil and gas industry, galvanising companies into new, innovative and collaborative ways of operating. EnQuest has been at the forefront of these advances and initiatives and these more cost efficient operating methodologies are being institutionalised. These are lasting structural changes and are essential to the optimisation of hydrocarbon extraction from the North Sea and beyond.

EnQuest supports the UK Government's strategy for 'Maximising Economic Recovery ('MER') for the UK' and works closely with the Oil & Gas Authority ('OGA') to achieve this. In Q4 2016, EnQuest brought the Scolty/Crathes development onstream; the only offshore oil Field Development Plan to have been approved in the UKCS in 2015. Realisation of the potential from these smaller fields was enabled by cost efficiency, technology application and solid execution. EnQuest looks forward to adding further value to these MER (UK) initiatives through applying its differential capabilities to optimise the recovery of oil from the UKCS.

EnQuest welcomes the current programme to simplify and make more competitive the UK upstream tax regime, including reductions in the headline level of oil and gas tax rate, as set out in HMT's 'Driving Investment' document. These are essential to creating certainty and to driving the still substantial investment needed in the UKCS. EnQuest believes that there is no longer a case for additional petroleum tax levies, such as the supplementary charge on UK upstream oil and gas activities. Such taxes mitigate against the realisation of MER (UK).

Reasons for the 2016 financial restructuring

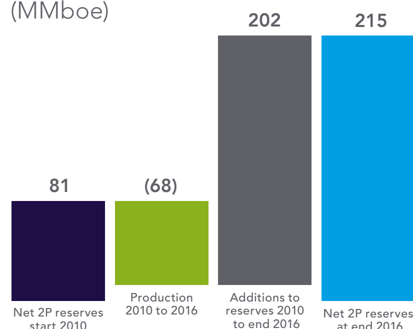
The decline in oil prices since 2014 and the cost of the Alma/Galia development project have had a significant negative impact on the Group's revenues, liquidity and available cash resources.

In response to the decline in oil prices, the Group set a number of strategic priorities, including delivering on execution, streamlining operations and strengthening the Group's balance sheet. The Group focused on delivering a strong operational performance and also took a number of additional measures to address the impact of the decline in oil prices and the Group's cash flow constraints. These included; negotiating the relaxation of certain financial covenants in the revolving credit facility ('RCF') and the retail notes; engaging in commodity hedging activities; divesting non-core international assets; reducing operating costs; reducing capital expenditure on the Kraken development; improving future cash flows through the development of Kraken and Scolty/Crathes; and deferring certain trade creditor obligations.

These measures were significant steps in maintaining the Group's viability in the prevailing environment. However, a longer term solution was needed to strengthen the Group's liquidity position, to reduce the burden of the Group's cash debt service obligations and to enable the Group to continue pursuing its business strategy, particularly, bringing Kraken to first oil.

This led to the financial restructuring in Q4 2016, the key features of which were amendments to the RCF and to both the high yield and retail bonds, the renewal of surety bond facilities and a placing and open offer, to raise £82 million. On 21 November, the Board was pleased to announce that the restructuring had been successfully completed and was effective.

Strong reserves growth over EnQuest's first seven years
(MMboe)



The EnQuest Board

On 8 September 2016, EnQuest announced that after over six years in the role, Dr James ('Jim') Buckee was retiring as Chairman of the Company and that I was to become EnQuest's new Chairman, both with immediate effect. The Board and I reiterate our thanks to Jim for his important contribution to the Company since its inception. During his tenure, EnQuest grew reserves from 80.5 MMboe at the start, to 203 MMboe at the end of 2015. For my part, I was indeed pleased to become Chairman at such an important time in the Company's development and I was warmly welcomed into my new role by EnQuest's Chief Executive, Amjad Bseisu, and the rest of the Board.

On 15 December 2016, EnQuest announced the appointment of Carl Hughes as a Non-Executive Director and that Neil McCulloch was being appointed as Chief Operating Officer ('COO') and was to join the Board as an Executive Director at the 2017 AGM. The appointment of Carl Hughes as a Non-Executive Director of the EnQuest Board was effective on 1 January 2017. Carl was previously a vice chairman and senior audit partner at Deloitte, based in London; he was also global leader of Deloitte's energy and resources practice. Prior to his promotion to COO, Neil was EnQuest's President, North Sea. Neil's previous responsibilities for EnQuest's North Sea operations, expanded to include production from Kraken and EnQuest's operations in Malaysia. I am delighted to welcome Carl to EnQuest and I look forward to working with him as a member of the Board. I am also pleased to congratulate Neil, both on his appointment to the role of COO and on being invited to join the Board.

In March 2016, as part of the planned rotation of the Board, Clare Spottiswoode retired from the Board. I would like to repeat the Board's gratitude to Clare for her valuable contributions during her tenure with EnQuest. In conjunction with an independent search firm, the process of building on our rotation plans continues.

Our people

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

In 2016, the strategic focus was again on positioning the business for the prevailing oil price environment, whilst also ensuring it continued to achieve its operational targets. Delivery against these objectives has only been possible due to EnQuest's people. The Board and I would like to express our gratitude to everyone at EnQuest for having worked so diligently and innovatively to address the challenges presented by the oil price environment.

In particular, we are grateful to the EnQuest leadership team for their energy and dedication in navigating into place the complicated restructuring and capital raise. We are pleased that these arrangements have put EnQuest in the position where it can continue doing what it is known for and what it does so well, creating value from opportunities in maturing oil fields.

Following the capital restructuring, the Board also worked with the management team on the proposed EnQuest acquisition of interests in the Magnus oil field and the Sullom Voe Terminal. Again, this transaction is a significant demonstration of the stamina and ingenuity of our people – your Company is led by a high quality team.

Governance

The Board believes that the manner in which it conducts its business is important and it is committed to working to the highest standards of corporate governance for the benefit of all of its stakeholders. Ensuring that the Board works effectively remains a key areas of focus. EnQuest's values underpin a working environment where people are safe, creative and passionate, with a relentless focus on results.

2016 saw the inception of a new Committee of the Board, the Risk Committee. The primary purpose of the Risk Committee is to provide a forum for in-depth examination of non-financial risk areas (financial risk being within the scope of the Audit Committee). Over the course of the year, the Committee has reviewed a number of areas such as asset integrity, subsurface risks and morale.

EnQuest's corporate responsibility is focused on five main areas. These are, first and foremost, Health and Safety, People, Environment, Business Conduct and Community. The Board has approved EnQuest's overall approach to Corporate Responsibility and specific developments and updates in each are brought to the Board's attention when appropriate. The Board receives regular information on EnQuest's performance in these areas, and specifically monitors health and safety and environmental reporting at each Board meeting. EnQuest's HSE&A Policy is reviewed by the Board annually and all incidents, forward looking indicators and significant HSE&A programmes are discussed by the Board.

Culture is an area of increased focus given the impacts of the current oil price environment and the growth in operations, as both the Alma/Galia and Kraken projects add scale to EnQuest's business. Furthermore, EnQuest is now working to complete its acquisition of operating interests in the Magnus field and the Sullom Voe Terminal, transitioning to take over operatorship and absorbing significant additional numbers of personnel into the business. It is therefore important to set the right tone and to foster among the workforce high morale, common values and a focus on efficient and ethical achievement. Furthermore, EnQuest took considerable care to ensure that the processes adopted during a rationalisation of the workforce in Aberdeen were, and were seen to be, fair and understanding.

Dividend

The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the near future. Any future payment of dividends will 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 at the time.

A return to sustainable growth

In January 2017, with a view to continuing to build its growth options, EnQuest announced the acquisition of interests in the Magnus oil field and the Sullom Voe Terminal ('SVT'), for both of which EnQuest is set to become operator, subject to the necessary approvals. The acquisition has an innovative structure, recognising EnQuest's current balance sheet constraints. The vendor, BP, endorsed EnQuest's capabilities, highlighting that EnQuest is a natural operator of mature assets in the North Sea, well placed to improve production and to prolong the life of such assets in the UKCS.

With Magnus and SVT being added to the portfolio and with the 2016 restructuring implemented, EnQuest is positioned with the right assets and the right team for the next phase of its growth. EnQuest has the high efficiency and low cost capabilities required for this environment; it has restructured its operations and its ways of doing business such that even modest increases in oil prices can have a significant positive impact on future cash flows and growth.

In 2017, EnQuest's top operational priority is safely bringing the Kraken development onstream on schedule. As EnQuest begins to move beyond an extended period of heavy capital investment, its strategic priorities continue to be to increase production by delivering on operational and development execution, whilst also continuing to reduce the operating cost base. This combination of financial and operational discipline will result in increasing cash flows and in the deleveraging of the balance sheet, which continue to be the high priorities in the near term.

Chief Executive's report

Amjad Bseisu
Chief Executive

"Following delivery of Kraken, EnQuest will begin moving from a period of heavy capital investment into one focused on cash generation and deleveraging the balance sheet."

EnQuest's performance, business model and strategy in 2016

2016 was another challenging year for EnQuest, with continuing pressure from the oil price environment. Accordingly, EnQuest has delivered further reductions in operating and capital expenditure and continued to streamline operations. EnQuest's low cost operating structure and low cost approach to operatorship are integral to its way of doing business, whilst always retaining safe operations as the number one priority. It was a year characterised by both operational and financial achievements, with the successful financial restructuring being essential for the strength of the balance sheet.

The average production of 39,751 Boepd in 2016 included good performances at Heather/Broom and at PM8/Seligi, and a promising start from Scolty/Crathes, following early delivery of first oil. A first full year of production from Alma/Galia increased UKCS production over the prior year, despite productivity from Alma/Galia being negatively impacted by well performance. Overall production was also affected by extended shutdowns. The Kraken development finished 2016 under budget and on course for first oil in Q2 2017, with the drilling programme ahead of schedule.

To help protect its capital investment programme, EnQuest had entered into a substantial hedging programme for 2016; this contributed $255.8 million to EBITDA of $477.1 million in 2016. Cost control and efficient management of operations drove further material cost reductions; average 2016 full year unit opex was $24.6/bbl, compared to $29.7/bbl in 2015 and $42.1/bbl in 2014. 2016 cash capex was $609.2 million, down 19% on 2015; this final 2016 capex total was well down on the original estimate of between $700 million and $750 million, reflecting ongoing reduction initiatives throughout the year, including deferral of payments for Kraken and Scolty/Crathes.

Even though EnQuest had been successful in making significant reductions to its cost base, the Company also needed to restructure its financial position. In October 2016, EnQuest announced proposed amendments to the revolving credit facility and to both the retail notes and the high yield notes, as well as a placing and open offer. In November 2016, EnQuest successfully completed the restructuring. This provided EnQuest with a stable and sustainable capital structure, reduced cash debt service obligations and enhanced liquidity. The revolving credit facility was restructured into a $1,125 million term loan facility and a $75 million revolving credit facility. The terms of the high yield bonds and retail bonds were amended, with extended maturities and interest to be paid in kind rather than in cash when oil prices are below $65/bbl in the six month period prior to determination. The placing and open offer also raised gross aggregate proceeds of £82 million. The restructuring was key for EnQuest and significantly improved its liquidity position. EnQuest finished the year with net debt of $1,796.5 million, as at 31 December 2016.

End 2016 net 2P reserves of 215 MMboe represented a 6% increase on the 203 MMboe at the end of 2015. This reflected the impact of EnQuest producing 13 MMboe of hydrocarbons in 2016 and the acquisition of an additional 10.5% interest in the Kraken development from First Oil at the start of 2016. There were also upward revisions to reserve estimates at the Thistle and Heather hubs, both due to improved predicted performance of infill wells based on reservoir simulation model outputs and decreases at Alma/Galia due to the levels of well performance. By the end of 2016, EnQuest had therefore converted into flowing barrels the equivalent 84% of the 81 MMboe of reserves with which it began its business with in 2010.

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

EnQuest maintained its commitment to the delivery of continual improvement in HSE&A performance in 2016, with excellent results in many areas, but with some areas requiring fresh actions to be undertaken.

EnQuest's Lost Time Injury ('LTI') performance remained strong: the Kittiwake, Northern Producer and EnQuest Producer assets in the North Sea all recorded an LTI free year. EnQuest's Malaysian operations recorded zero LTIs and were pleased to achieve a Total Recordable Incident Frequency ('TRIF') for the year which was better than targeted.

In the UK, a comprehensive HSE&A audit programme was completed, with findings being part of the 2017 continual improvement programme. This underlines EnQuest's focus on improvement through the detection and resolution of issues.

EnQuest's focus on HSE&A continues to be a priority.

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

North Sea operations

In 2016, EnQuest produced an average of 30,603 Boepd in the North Sea, an 11.3% increase on the previous year and a generally good performance with high levels of production efficiency. 2016 production benefitted from the drilling programme in H2 2015 and from the new Scolty/Crathes development, brought onstream ahead of schedule and under budget. Production was negatively impacted by third party shutdowns for maintenance, which were delayed and took longer than anticipated, also by the well performance issues at Alma/Galia, and reliability issues with its electrical submersible pumps ('ESP's). EnQuest monitors its projects to ensure that lessons learned from past projects, such as Alma/Galia, are used as inputs to the structuring of new ones; hence at sanction, most of the Kraken development was structured using lump-sum fixed price contracts, with remuneration for the vessel provider being determined by delivery and functionality key performance indicators.

Heather/Broom performance was one of the highlights of the year, with production of 5,948 Boepd, up 28.1% on the prior year. This was due to increased plant and water injection reliability and the continuing benefits of the 2015 wells workover programme. Driven partly by this increased production, but also by the ongoing cost reduction programme, Heather/Broom significantly reduced its unit operating costs.

Kraken

In 2016, the Kraken development progressed well, finishing the year ahead of budget and on schedule for first oil in Q2 2017. The conversion programme for the Kraken FPSO vessel continued and on 23 November, the FPSO left Singapore, en route to the North Sea. Drilling for the project was ahead of schedule on drill centres 2 and 3 ('DC-2' and 'DC-3'), following completion of well activities at drill centre 1 ('DC-1').

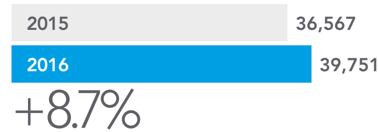
Earlier in the year, the subsea installation programme was completed, with all three drill centres fully connected to the submerged turret production ('STP') buoy for hook up to the FPSO and the last mooring pile and wire/chains installed.

The drilling programme made excellent progress in 2016, with the results from the producer and injector wells which were drilled and completed meeting pre-drill expectations. This good progress on drilling and also on the execution of the subsea programme were key factors in the $375 million of additional Kraken gross project capex savings announced in 2016, reducing gross capex to c.$2.5 billion.

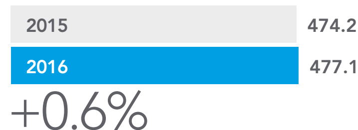
Malaysia

Total production of 9,148 Boepd in Malaysia was slightly ahead of the prior year. Production of 7,960 Boepd from PM8/Seligi was slightly lower than the prior year's 8,689 Boepd, as a result of additional maintenance shutdown days in 2016, as well as reduced volumes of gas and condensate, which are ad hoc in their nature. Adjusting for

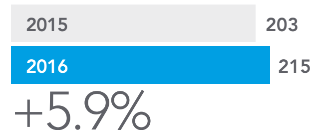
Production (Boepd)



EBITDA[1] ($ million)



Reserves (MMboe)



1 EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gain/loss on foreign currency derivatives related to capital expenditure. The prior year EBITDA has been restated on a comparable basis by adding back realised losses on foreign currency derivatives related to capital expenditure of $9.4 million.

these, underlying production at PM8/Seligi increased year on year, a substantial achievement for a mature field with wells which have natural decline rates. Especially in a year with no drilling, this is a testament to the success of the programme of well intervention and topsides work and high levels of production efficiency.

Financial performance KPIs

In 2016, EnQuest generated EBITDA of $477.1 million compared with $474.2 million in 2015; the negative impact of lower oil prices, being mitigated by hedging income of $255.8 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 again, down to $24.6/bbl compared to $29.7/bbl in 2015.

As at 31 December 2016, EnQuest had total net debt of $1,796.5 million.

2017 year to date

The Kraken FPSO arrived in the North Sea in early January, having completed its journey from Singapore within the scheduled number of days. The vessel was berthed in Rotterdam for post voyage inspection and final preparations prior to sailing. The FPSO then sailed to the Kraken field once good weather conditions were anticipated for the hook up of the STP buoy mooring system to the FPSO. This was completed and a full rotation test performed so that by mid-February the vessel was on station and securely moored. Work is continuing in the turret area, as is topsides commissioning work. Following completion of the turret area work subsea commissioning will commence. Handover of FPSO systems from commissioning to operations continues.

In January 2017, EnQuest was pleased to announce an agreement to acquire from BP an initial 25% interest in the Magnus oil field representing c.16 MMboe of additional net 2P reserves (gross reserves of 63 MMboe) with net production of c.4,200 Boepd in 2016 (gross production c.16,600 Boepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT') and additional interests in related North Sea pipeline infrastructure. EnQuest already had interests of 3.0% in SVT. EnQuest is to become the operator of these assets. The transaction is subject to certain regulatory, government authority, counterparty and partner consents. The consideration for these interests is $85 million, subject to working capital and other adjustments, which will be funded by deferred consideration payable from the cash flow of the assets being acquired. There are no requirements for cash from EnQuest, other than as generated from these assets.

The transaction capitalises on EnQuest's strengths in realising value from the management of maturing oil fields, as underlined by BP's confidence in proposing a change of operatorship to EnQuest. Magnus is a good quality reservoir; it has large volumes in place, with potential for infill drilling and for the revitalisation of wells, and scope for field life extension. Magnus is a producing asset that will materially increase EnQuest's reserve base. There is long term potential in Magnus and there would be a significant increase in cash flow at higher oil prices. Operationally and financially SVT is an important asset to EnQuest and taking over operatorship gives significant influence over its long term future. EnQuest is a natural strategic partner to BP for maturing assets and this innovative structure represents a natural evolution of EnQuest's business. EnQuest believes the innovative transaction net cash flow sharing structure can also become a template for transferring maturing assets from other majors to efficient operators such as EnQuest. Since this proposed acquisition was announced, the process of transitioning operatorship of these assets and securing the necessary regulatory, government, counterparty and partner consents has begun and continues.

Chief Executive's report continued

CEO Amjad Bseisu with COO Neil McCulloch.

In December 2016, it was announced that Neil McCulloch, then EnQuest's President, North Sea, was being promoted to the Group position of Chief Operating Officer, with effect from the start of 2017. It is intended that Neil will join the EnQuest Board, as an Executive Director, at EnQuest's 2017 Annual General Meeting ('AGM'). Neil's responsibilities for EnQuest's North Sea operations have expanded to include production from Kraken and also EnQuest's operations in Malaysia.

In the continuing challenging macro environment and building on its successes in 2016, EnQuest is focused on its **differential capabilities**, its **low cost approach to operatorship** and its **financial discipline**. EnQuest believes that these are critical enablers for its business.

2017 and beyond

In the continuing challenging oil price environment and building upon its successes in 2016, EnQuest is focused on its differential capabilities, low cost approach to operatorship, and financial discipline. The agreement with BP to acquire interests in, and operatorship of, Magnus and SVT is confirmation of the effectiveness of EnQuest's capabilities and its potential to add value for both EnQuest and for other business partners.

The Kraken project remains under budget and on track for delivery of first oil in Q2 2017.

EnQuest remains on course to achieve average production in the range of 45,000 Boepd to 51,000 Boepd for 2017. This is based on six operated producing hubs in the UK and the PM8/Seligi hub in Malaysia, with the level of 2017 production being dependent upon the timing of first oil from Kraken. A full year contribution from Kraken in 2018 should substantially increase production again that year.

Six million barrels have been hedged for 2017, at an average of c.$51/bbl.

EnQuest remains on course to reduce average unit opex further in 2017, in the range of $21/bbl to $25/bbl including Kraken production. EnQuest continues to seek cost reductions across the supply chain.

Cash capital expenditure will reduce in 2017 and is expected to be in the range of $375 million to $425 million, the majority of which is being invested in the Kraken development.

Following delivery of first oil from Kraken, EnQuest looks forward to beginning the process of deleveraging the balance sheet to levels which are sustainable over the longer term. EnQuest's combination of integrated technical capabilities and high levels of production efficiency and cost control, ideally positions us to realise production potential from the assets we own.

Business model focus areas

Differential capability

Industry perspective on EnQuest: BP group chief executive Bob Dudley commented:

"EnQuest's experience of investing in and extending the life of mature assets in the North Sea make them a natural operator of Magnus and Sullom Voe in this later phase of their life. We believe this will enable them to prolong the life of the assets, benefiting the region and creating additional value for both EnQuest and BP shareholders. In addition to investing in and growing our core businesses, BP will continue to seek innovative opportunities such as this to work with partners to maximise value creation from our entire portfolio."

EnQuest has the right mix of **integrated technical capabilities** and of **high levels of production efficiency** and **cost control** to realise value from the substantial production and opportunities in the assets it owns in the maturing North Sea and Malaysian basins.

EnQuest's differentiation is apparent in key areas across the organisation and closely interlinks with its goals of focusing on financial discipline and managing costs.

EnQuest's differentiation is evident in its wells delivery programme. EnQuest has created competent, experienced and motivated teams which have worked rigorously and at pace to deliver exceptional results in 2016. This was exemplified by the excellent drilling performance in the Central North Sea and Kraken activities and the idle well restoration programme at PM8/Seligi.

It is equally evident in how EnQuest manages risk. EnQuest has established new commercial models with its supply chain, supporting sustainable operations for the long term. For example, EnQuest has sought to de-risk projects through the use of proven off-the-shelf technologies, rather than unnecessarily high cost bespoke solutions. As an example the use of ultra-deep resistivity imaging tools significantly de-risked the Kraken and Scolty/Crathes developments.

Engaging more deeply with suppliers and service providers has created a more focused supply chain. It provided the backdrop against which, EnQuest secured $60 million of capex savings on the Scolty/Crathes development sanctioned at a gross development cost of $250 million – while bringing it in ahead of schedule. The project has, in turn, extended the operational life of the GKA fields.

Allied to this is EnQuest's distinctive project execution model. EnQuest establishes core teams that are small in constituent numbers, but which are empowered to build relationships with contractors that are defined by trust, honesty and a mutual readiness to engage and challenge.

EnQuest has changed its own organisation, restructured to reduce spend and refocused for the future shape of the business. EnQuest has evolved from a business in which the majority of people were contractors, to one which now primarily comprise the Group's own staff. This deepens EnQuest's influence and more closely aligns all the people who work for EnQuest with its differentiated approach.

EnQuest has broadened its horizons, working with the wider industry to maximise economic recovery in the North Sea. EnQuest is an active player, for instance, in the Operational Gas Group, a multiple operator collaboration which has successfully sourced a common supply of extra fuel gas to address a shortage in the northern North Sea.

Together, measures such as these enable EnQuest to achieve its goal of Safe Results: reliable and efficient production performance, delivered safely.

Business model focus areas continued

Low cost operator

Unit opex to be between $21/bbl to $25/bbl in 2017

The oil price environment of recent years acted as a catalyst, driving forward innovative industry leading initiatives which EnQuest has in place to **streamline its operations.** A **lower cost structure** and approach has been institutionalised in EnQuest's way of doing business.

EnQuest's business model is based on the assumption of operatorship of maturing assets and the transformation of their performance, by addressing high operating costs and low levels of production and operating efficiency.

A core element of EnQuest's operating cost reduction strategy is its approach to supply chain management. EnQuest pursues its objective of sourcing better quality at lower cost, by building strategic partnerships with the wider industry and by improving internal efficiencies.

Under the former, EnQuest's activities take several forms. They include an annual supplier forum that provides a platform for dialogue with around 40 strategic service providers. The initiative has been the catalyst for spend reductions of more than $90 million.

This partnership approach also features the adoption of 'open book' contracts. By promoting collaboration through financial transparency, EnQuest has seen substantial reductions in supplier rates.

EnQuest is collaborating with operators of a similar size and philosophy to itself, to reduce its North Sea cost base. This is proving effective in areas ranging from contract benchmarking for specific services to the initiation of an inventory sharing platform that enhances efficiency in spares management.

A new model for the provision of helicopter services in support of EnQuest's Northern North Sea assets led to improved service availability.

To improve internal cost performance, the business has embarked upon a cost efficiency initiative which optimised value by focusing heavily on post-award contract management. For example, the business carries out detailed audits of the implementation of contracts, helping to improve invoice processing and recovery of payments due.

EnQuest has also adopted a 'hub' approach, to consolidate some of the support services for all of its Northern North Sea assets, and therefore minimise mobilisation/demobilisation costs.

This focus on internal efficiencies has also featured the introduction of a refreshed platform supply vessel strategy and the formation of a centralised procurement function which has resulted in better cost control processes and which has reduced the administrative demands on the time of key technical personnel.

EnQuest actively explores alternate geographical markets, beyond its historical conventional sources, identifying and achieving sustainable cost reductions. The strategy encourages EnQuest's traditional suppliers to become more efficient and competitive, and therefore supports the wider industry goal of reducing the cost base of North Sea operations.

Financial discipline

Performance is focused on driving cash flow

As EnQuest moves from a period of heavy investment to one focused on realising production potential from existing resources and capabilities, it will maintain **financial discipline**. With improved liquidity and operating cash margins, EnQuest's performance is **focused on driving cash flow**.

Financial discipline has always been a cornerstone of EnQuest's operating model and it is one which assumed even greater significance in 2016.

Against the backdrop of continuing low oil prices, the business successfully completed a financial restructuring exercise, with very high levels of support from financial stakeholders. This comprehensive package of measures placed EnQuest on a strong footing to deliver the Kraken development in Q2 2017 and, more strategically, to be able to deliver value to shareholders in the medium and long term. After Kraken has been brought onstream, EnQuest plans to begin to reduce debt, restoring its balance sheet to levels which are more appropriate and sustainable for the longer term.

EnQuest is moving from a period of heavy capital investment into one of cash generation – a natural evolution and one which has been given greater impetus by the prevailing macro economic environment in the oil and gas industry.

EnQuest has potential for growth from its existing assets. Its ability to deliver has been underpinned by the improved liquidity secured from the capital restructuring and by the cash positive operating margins on all assets secured by business wide cost efficiency measures.

Two years ago, in H1 2014, EnQuest's unit operating costs were over $45/bbl. EnQuest has undertaken an all encompassing programme to address those cost levels. This has been successful to the extent that in 2017, the year in which Kraken comes onstream, unit operating costs will be in the range of $21/bbl to $25/bbl. EnQuest will continue to seek further efficiencies in both operating and capital expenditure.

EnQuest will remain highly focused on delivery and the realisation of cash flow from its assets. EnQuest's key performance indicators and performance targets have been set accordingly.

EnQuest's operating model remains robust and effective, with an unrelenting focus on cost management and production efficiency across the organisation. It is a distinctive model that positions EnQuest among the top North Sea performers in these areas and sets the foundations for a sustainable and successful future for the business.

Hydrocarbon assets

EnQuest's hydrocarbon assets
EnQuest's asset base as at 31 December 2016

North Sea

Licence	Blocks	Working interest (%)	Name
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	78.6	West Don
P238	211/19a & 21/19b	50	Grouse, Mallard, Gadwall (Eagle[3])
P242	2/5a	63 & 100	Broom & Heather
P351	21/18a	50	Kittiwake
P475	21/19s	99	Thistle
P902	2/4a	63	Broom
P1077	9/2b	70.5	Kraken & Kraken North
P1200	211/13b	78.6	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
Other licences			
P90	9/15a	33	
P209	9/28a	19	
P220 / P250 / P585	15/12b, 17a & 17n	60	
P1996[2]	28/2b & 28/3b	100	
P2148	9/2c	70.5	
P2173	20/15b, 21/11a & 21/16a	50	
P2176	21/8b	100	
P2177	21/14b, 19c & 20b	50	
Malaysia			
PM8/Seligi[4]	PM8 Extension	50	Seligi, North & South Raya, Lawang, Langat, Yong and Serudon
Tanjong Baram SFRSC[5]	Tanjong Baram	70	Tanjong Baram

Notes:
1 Not operated.
2 The disposal of this licence had been agreed but had not completed by the end of 2016.
3 2016 discovery.
4 Official reference PM-8 Extension PSC.
5 Small Field Risk Service Contract. PETRONAS remains the asset owner.

Note: On 24 January 2017, EnQuest PLC (together with its subsidiaries,'EnQuest'), announced an agreement to acquire from BP an initial 25% interest in the Magnus oil field ('Magnus') representing c.15.9 MMboe of additional net 2P reserves (gross reserves of 63.4 MMboe) with net production of 4.2 Mboe/d in 2016 (gross production 16.6 Mboe/d) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT'), 9.0% of Northern Leg Gas Pipeline ('NLGP') and 3.8% of Ninian Pipeline System ('NPS') (collectively the 'Transaction Assets'). EnQuest currently has existing interests of 3.0% in SVT, 5.9% in NLGP and 2.7% in NPS.

EnQuest will become the operator of the Transaction Assets; the transaction is subject to certain regulatory, government authority, counterparty and partner consents. The transition for the change in operatorship is anticipated to take between 6 and 12 months.

EnQuest people

EnQuest is a vibrant organisation with real passion, this keeps things new and exciting, which makes me look forward to the next challenge. Working in such a diverse role within the Company has allowed me to collaborate with many teams throughout the business, this ensures we deliver business objectives together and strive for continual improvement.

Ruth Chapman
Performance Management Team Leader

EnQuest oil and gas reserves and resources at 31 December 2016

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1, 2, 3 and 6)					
At 31 December 2015		187		16	203
Revisions of previous estimates		9		3	11
Acquisitions and disposals (note 7)		14			14
Production:					
Export meter	(11)		(3)		
Volume adjustments (note 5)	0		1		
Production during period:		(11)		(2)	(13)
Total at 31 December 2016 (note 8)		**199**		**17**	**215**
Contingent Resources (notes 1, 2 and 4)					
At 31 December 2015		94		52	146
Revisions of previous estimates		3		3	6
Discoveries, extensions and additions		7			7
Acquisitions (note 7)		5			5
Disposals (note 7)		(10)			(10)
Promoted to Reserves		(4)			(4)
Total Contingent Resources at 31 December 2016		**95**		**55**	**151**

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 Correction of export to sales volumes.
6 All UKCS volumes are presented pre SVT value adjustment.
7 Equity increased to 70.50% in Kraken and 78.60% in West Don. Contingent Resources: Relinquished Shelterstone and exited Avalon.
8 The above proven and probable reserves include 10.4 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs and fuel gas on Heather, Broom, West Don, Don SW, Conrie and Ythan.
9 The above table excludes Tanjong Baram in Malaysia.

Exploiting our existing reserves
Thistle/Deveron, Dons, Heather/Broom, GKA, Scolty/Crathes, Alma/Galia, Alba, PM8/Seligi, Tanjong Baram
In 2016, EnQuest produced 13 MMboe from existing reserves, combined with the impact of the acquisition of an additional 10.5% interest in Kraken, upward revisions to reserve estimates at the Thistle and Heather hubs, both due to improved predicted performance of infill wells based on reservoir simulation model outputs and decreases at Alma/Galia due to the levels of well performance resulted in end 2016 net 2P reserves of 215 MMboe.

Read more on pages 21–27

Commercialising and developing discoveries
Scolty/Crathes
First oil from Scolty/Crathes was delivered on 21 November 2016. Initial production performance has been encouraging and is consistent with pre-drill modelling; with only c.40 days of production in 2016, this provided an insufficient amount of dynamic performance data for changes in reserves.

Read more on pages 13, 21

Converting contingent resources into reserves
PM8/Seligi, Eagle
In 2016, reserves and contingent resources each increased by 3 MMboe at PM8/Seligi due to better than expected reservoir and well intervention performance and also idle well restoration work, along with an increased longer term field redevelopment plan. Contingent resources also increased by 7 MMboe as a result of the successful Eagle discovery.

Read more on pages 24, 28

Making selective acquisitions and divestments
Kraken, West Don, Avalon
EnQuest acquired an additional 10.5% interest in the Kraken development with effect from 1 January 2016 and an additional 15.15% interest in West Don with effect from 2 August 2016; these resulted in an increase to reserves of 14 MMboe. As part of its investment prioritisation programme, in 2016 EnQuest disposed of its interests in the Avalon discovery; in the current oil price environment, EnQuest believed it to be sub-economic.

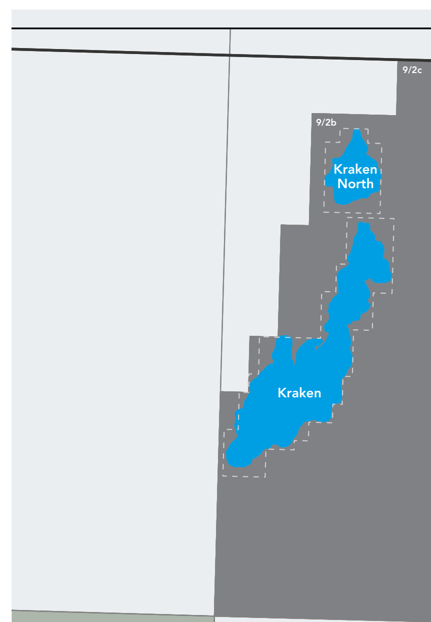
Read more on pages 21–27

Operating review

The Kraken development

"By mid-February 2017, the Kraken FPSO vessel was on station and securely moored."

Richard Hall
Head of Major Projects



- **Working interest at end 2016:** 70.5%.*
- **Decommissioning liabilities:** As per working interest
- **Floating Production, Storage and Offloading unit with subsea wells**

* With economic 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%.

2016

In 2016, the Kraken development progressed well, finishing the year ahead of budget and on schedule for first oil in Q2 2017.

In October 2016, following mechanical completion, shore based commissioning activities onboard the Kraken Floating Production, Storage and Offloading vessel ('FPSO') were completed at the quayside in Singapore. The vessel was then moved to deep water anchorage to undertake further commissioning work, following which, on 23 November, the FPSO sailed away en route to the North Sea. By this stage, drilling for the project was progressing to plan on Drill Centres 2 and 3 ('DC-2' and 'DC-3'), following completion of well activities at Drill Centre 1 ('DC-1').

Earlier in the year, the subsea installation programme had been completed, with all three drill centres fully connected to the submerged turret production ('STP') buoy for hook up to the FPSO and the last mooring pile and wire/chains installed.

The drilling programme made excellent progress in 2016 and this efficient execution was a key factor in the project capital expenditure reductions announced. The results from the producer and injector wells drilled and completed met pre-drill expectations. At year end, four producers and five water injectors had been completed since drilling commenced on the project.

2017 and beyond

The Kraken FPSO arrived in the North Sea in early January, having completed its journey from Singapore within the scheduled number of days. The vessel was berthed in Rotterdam for post voyage inspection and final preparations prior to sailing. The FPSO then sailed to the Kraken field once good weather conditions were anticipated for the hook up of the STP buoy mooring system to the FPSO. This was completed and a full rotation test performed so that by mid-February the vessel was on station and securely moored. The risers and umbilicals have now been successfully pulled in. Work is continuing in the turret area, as is topsides commissioning work. Following completion of the turret area work, subsea commissioning will commence. Handover of FPSO systems from commissioning to operations continues.

All drilling is now complete on DC-1 and DC-2 and the rig next moves to DC-3. At start up 13 wells will be available comprising 7 producers and 6 injectors. As with all developments of this scale, wells will be brought onstream in a phased manner in line with good reservoir management practices. Drilling performance to date has significantly de-risked delivery of the project to and beyond first oil.

The project continues to be under budget and on schedule for first oil in Q2 2017.

EnQuest people

EnQuest is a dynamic and agile environment to work within. Every day is exciting as new challenges arise, allowing for the application of original solutions, fostered in a highly focused and collaborative work environment. I enjoy the ability to discuss new ideas with colleagues with the goal of adding value and shaping the area of the business that I work within.

Lindsay Kirsten
Senior Economist

North Sea operations

"In the North Sea in 2016, EnQuest focused on streamlining operations, delivering on execution and on strengthening the balance sheet."

Neil McCulloch
President, North Sea

"At the start of 2017, I was delighted to take up the Company wide role of Chief Operating Officer, leading the North Sea and Malaysia business units at a time when operational delivery is paramount. The operations team continues to work closely with the Kraken development team and in 2017 we look forward to the safe delivery of first oil from Kraken."

In the North Sea in 2016, EnQuest focused on streamlining operations, delivering on execution and on strengthening the balance sheet. It was an intensely busy year and the team has much to be proud of. Successes included continued excellent drilling performance and high aggregate production efficiency. EnQuest portfolio in the North Sea is assessed to again have exceeded the Oil and Gas Authority's stated target of 80% production efficiency.

Scolty/Crathes represented a particular achievement; this was the only offshore pure oil Field Development Plan ('FDP') approved in the UK North Sea in 2015 and first oil was achieved approximately a year after the FDP was approved and the project was sanctioned. With the support of EnQuest's partner, the collaboration of our own team with our contractors and sub-contractors, the timely delivery of this 'small pools' project was enabled through cost efficiency and the application of technology, sustaining the wider Greater Kittiwake Area ('GKA') and infrastructure. It is an excellent example of Maximising Economic Recovery ('MER') in practice.

With unit capital costs under $20/bbl, Scolty/Crathes also demonstrates in practice the capital discipline that is essential at this stage in EnQuest's evolution, focused on a limited capital expenditure programme and on cash flow generating activities.

EnQuest reached its highest level of production in 2016, but below initial targets. Production was affected by longer than forecast third party shutdowns and also by disappointing productivity from Alma/Galia.

The cost reduction programme to streamline operations continued in 2016, helping to drive Group unit opex to the mid $20s per barrel, down almost 50% on the levels of early 2014. This was delivered by many initiatives and innovations across the operations and supply chain, including further reductions in service unit rates, supplier forums, open book contracts, and additional incentivised contract structures linking payment to performance. Payment compliance audits were used to ensure that contract terms were rigidly and correctly enforced. Centralising the procurement team has taken advantage of lower global costs.

In 2016 in the UK, an HSE&A audit programme was completed, with findings being part of the 2017 continual improvement programme. This underlines EnQuest's focus on improvement through the detection and resolution of HSE&A issues.

Magnus and Sullom Voe

In January 2017, EnQuest was delighted to announce the proposed acquisition of interests in the Magnus oil field in the northern North Sea and in the Sullom Voe Terminal ('SVT') on Shetland, from BP.

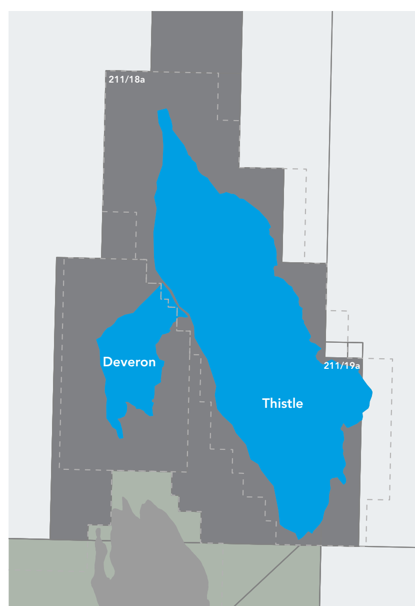
Magnus has well understood reservoirs with significant high quality subsurface data including 4D seismic. EnQuest sees upside potential in Magnus' resource base and has the necessary skills to realise the latent value therein. There are currently three mature drilling targets with the potential to be onstream in 2018. Two of these wells will expand the existing Water Alternating Gas ('WAG') scheme. Beyond this, there are significant further opportunities, including further expansion of WAG, which EnQuest expects to be realised in the future. EnQuest's proven ability to reliably drill low cost wells will be instrumental in commercialising Magnus' remaining resource potential.

EnQuest materially reduced its unit operating costs between 2014 and 2016, whilst also delivering high levels of operating efficiency. EnQuest anticipates being able to apply the same approach to Magnus, significantly reducing unit operating costs and increasing operating efficiency. EnQuest also expects economies of scale from combining with its existing operations, including savings in logistics, contracts and overhead, creating further efficiencies across EnQuest's Northern North Sea portfolio.

Building on the work that BP as operator and EnQuest and other owners have done in recent years, EnQuest expects to be able to improve efficiency and costs and extend the life of the Sullom Voe oil terminal. In so doing, this will extend the lives of EnQuest's Northern North Sea oil fields. Such operating improvements will have a wider effect and benefit adjacent fields and infrastructure helping to rejuvenate northern North Sea operations generally. This would also be a further demonstration of EnQuest's commitment to the region and of its capabilities.

Operating review continued

North Sea operations



Thistle/Deveron

- **Working interest at end 2016:** 99%
- **Decommissioning liabilities:** Original liabilities remain with former owner*
- **Fixed steel platform**
- **Daily average net production:**
  - 2016: 7,533 Boepd
  - 2015: 8,930 Boepd

* Under the terms of EnQuest's proposed acquisition of interest in the Magnus oil field and the Sullom Voe Terminal, EnQuest has an option to receive $50 million in cash in exchange for undertaking the management of the physical decommissioning for Thistle and Deveron and making payments by reference to 6% of the gross decommissioning costs of the Thistle and Deveron fields.

2016

Across 2016, average production from Thistle/Deveron was 7,533 Boepd.

2016 reflected the benefit of the 2015 drilling programme; the planned Southern Fault Block P2 sidetrack was however halted at the start of the year due to slot recovery issues. In Q1 2016, one of the Thistle power generation turbines was overhauled and other maintenance and integrity projects continued throughout the year. Further production enhancing field life extension work was scheduled for the middle of 2016, during a Thistle production shutdown planned to coincide with a third party shutdown of the Brent Pipeline System ('BPS'). However, the BPS shutdown was delayed to the end of the year, thereby delaying Thistle production enhancements. The BPS shutdown itself proved to be considerably longer than expected, resulting directly in four weeks of lost production.

Bad weather in late December then also affected production start up by a further week. In December, Thistle started and successfully commissioned new process plant and associated controls. Water injection remained offline during this period to support essential electrical maintenance and to address flexible flowline integrity.

2017 and beyond

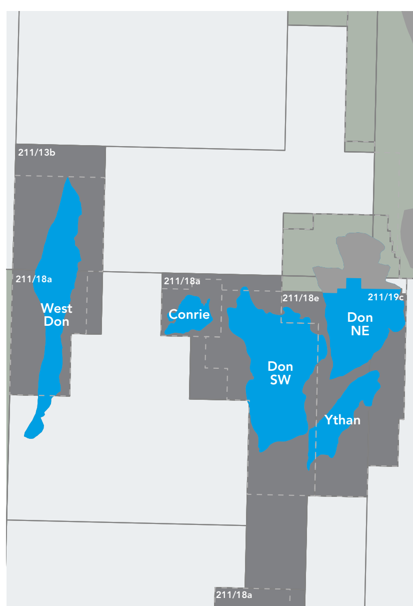
On both Thistle and Heather there is a programme to abandon redundant well stock, co-funded by EnQuest's partners. This will both reduce risk and present opportunities in the future to drill further infill wells when circumstances allow. The related Thistle programme of partial well abandonments will continue throughout 2017, starting with the abandonment of well A05/25, which commenced in January 2017. The phased approach to decommissioning utilises EnQuest's ability to execute low cost well work for the benefit of all Thistle stakeholders and is an important new component of Thistle's life extension strategy.

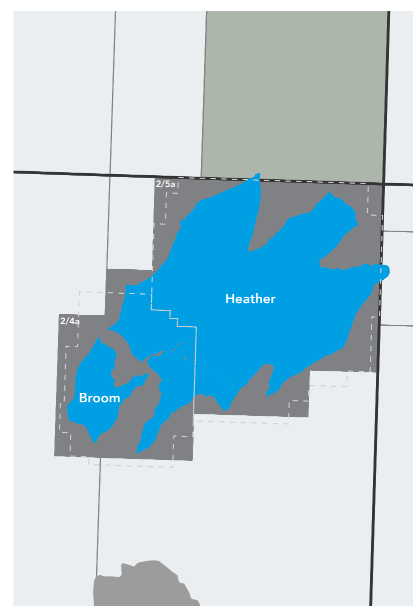
The BPS operator is planning a further shutdown in 2017, currently expected to result in a Thistle shutdown in Q3.

EnQuest people

The challenges that we all faced last year brought together a passion and spirit within the platform to over achieve as a team. Every day brings a fresh challenge with EnQuest, who encourage you to better achieve your goals.

Alexander Simpson
Operations Supervisor
Northern Producer





The Don fields

- **Working interest at end 2016:**
  - Don Southwest 60%
  - Conrie 60%
  - West Don 78.6%*
  - Ythan 60%
- **Decommissioning liabilities:** As per working interests
- **Floating production unit with subsea wells**
- **Daily average net production:**
  - 2016: 5,404 Boepd
  - 2015: 7,690 Boepd

* Following the default of First Oil plc in February 2016, a process was initiated which resulted in the transfer to EnQuest of 15.15% of First Oil's working interest in the West Don field. The transfer was completed on 2 August 2016, increasing EnQuest's stake from its previous 63.45%.

2016

Across 2016, average production from the Don fields was 5,404 Boepd.

2016 reservoir performance for the Don wells was above expectations, particularly with the benefit of the Ythan production well, drilled last year. However, the delay and extension of the third party BPS shutdown also affected the Don fields, with planned Dons production enhancement projects considerably delayed and with an extended 32 day Dons shutdown at the end of H2 2016. The 2016 Dons work programme included chemical treatment programmes and routine maintenance throughout the year.

The start of gas import benefitted production in the first half of the year, increasing plant efficiency and reducing production costs. A water injection line failure on Don Southwest reduced production with a temporary repair being successfully completed in November.

2017 and beyond

The planned BPS shutdown will impact the Dons similarly to Thistle, with a Don fields shutdown expected in Q3.

Heather/Broom

- **Working interest at end 2016:**
  - Heather 100%
  - Broom 63%
- **Decommissioning liabilities:**
  - Heather 37.5%
  - Broom 63%
- **Fixed steel platform**
- **Daily average net production:**
  - 2016: 5,948 Boepd
  - 2015: 4,643 Boepd

2016

Across 2016, average production from Heather/Broom was 5,948 Boepd.

The strong production performance resulted from a combination of work to increase water injection reliability and increased injectivity from the wells drilled and worked over in 2015. The Heather Alpha platform also had outstanding reliability with no unplanned outages. Maintenance and integrity projects continued as normal.

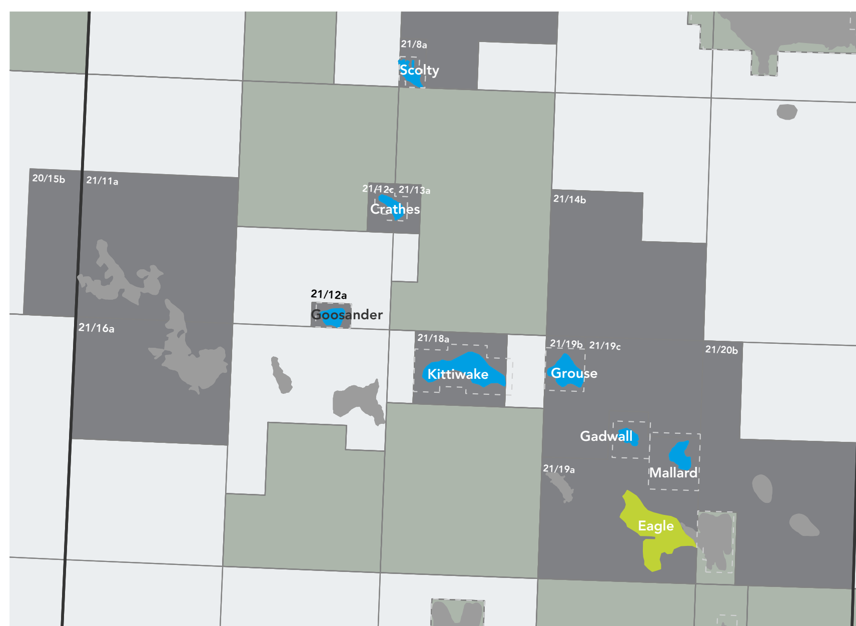
2017 and beyond

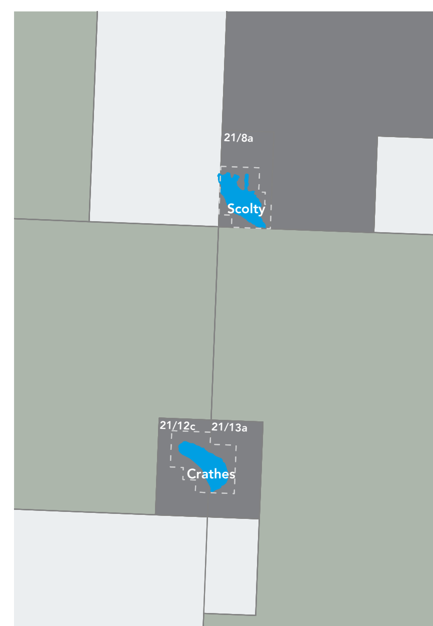
Following on from the Thistle well programme, the drill crew will move to Heather in the second half of 2017 to start a similar programme of well decommissioning. Removing legacy wells will safeguard current sustained high water injection efficiency. EnQuest is pleased to have gained decommissioning partner funding for this important life extension work.

A Heather hub shutdown for routine inspection and maintenance is expected Q3 2017.

Operating review continued

North Sea operations





Greater Kittiwake Area ('GKA')

- **At end 2016, working interest 50% in each of:**
  - Kittiwake
  - Grouse
  - Mallard
  - Gadwall
  - Goosander
- **Decommissioning liabilities:**
  - Kittiwake 25%
  - Mallard 30.5%
  - Grouse, Gadwall and Goosander 50%
- **Fixed steel platform**
- **100% interest in export pipeline from GKA to Forties Unity platform**
- **Daily average net production:**
  - 2016: 2,988 Boepd
  - 2015: 3,981 Boepd

2016

Across 2016, average production from GKA was 2,988 Boepd.

Production at the start of the year benefitted from continuing improvements in production efficiency, strong performance of the recently sidetracked Gadwall well, and from chemical treatments on Goosander conducted in 2015. The work programme at the start of the year focused on operational upgrades and on offshore construction on the Kittiwake platform in readiness for the tie-back of the Scolty/Crathes fields. H2 2016 included the planned three week shutdown, which included preparation for Scolty/Crathes delivering production on 21 November. GKA encountered gas compressor issues which resulted in Grouse being shut in for part of H2 2016, before being brought back online after the compressor was reinstated. In Q2 2016, EnQuest undertook the drilling of the nearby Eagle exploration well, which was confirmed as a discovery.

2017 and beyond

The work programme in GKA for 2017 will be focused on optimising production across the assets and concluding the minimal scope of work remaining from the Scolty/Crathes project: the replacement of the associated gas compressor ('A-Gas'). Grouse would also be offline during the gas system shutdown. No drilling is planned on GKA in 2017. Evaluation of the potential from the Eagle discovery is ongoing.

A chemical treatment (scale squeeze) is planned in the summer of 2017 for the Mallard well to coincide with the planned three week GKA shutdown in Q3 2017.

Scolty/Crathes

- **At end 2016, working interest 50% in each of:**
  - Scolty
  - Crathes
- **Decommissioning liabilities:** As per working interests
- **Tied back to the Kittiwake platform**
- **Daily average net production:**
  - 2016: 719 Boepd

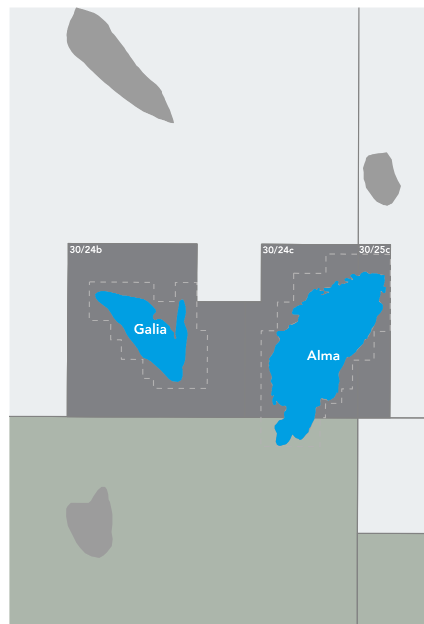
Data is based on the net production since first oil from Scolty/Crathes on 21 November 2016, as averaged over the full year.

2016

In 2016, the Scolty/Crathes development progressed ahead of schedule and under budget, with excellent drilling performance on both wells. On 21 November 2016, EnQuest delivered first oil from Scolty/Crathes, which had previously been anticipated by the end of H1 2017. Early production has been consistent with pre-drill modelling and field development plan assumptions; average production in 2016 from 21 November to 31 December was 6,422 Boepd.

2017 and beyond

The 2017 programme for Scolty and Crathes will be focused on optimising production across the two fields, as part of this process the Scolty well is currently shut in. Production will be affected by the same outages as are planned for GKA in 2017.



EnQuest people

Since joining EnQuest I have been impressed at how quickly issues and opportunities can be raised, discussed with key stakeholders and then decisions made to move forward. This degree of agility, enables EnQuest to deliver safely project and operations activities and the resulting production volumes in the current dynamic oil price environment and ensures EnQuest is an enjoyable and challenging place to work.

Martin Mentiply
Chief Petroleum Engineer

Alma/Galia

- **Working interest at end 2016:**
  - 65% in both fields
- **Decommissioning liabilities:**
  As per working interest
- **Floating Production Storage and Offloading unit ('FPSO') with subsea wells**
- **Daily average net production**
  - 2016: 6,740 Boepd
  - 2015: 1,083 Boepd*

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

2016

Across 2016, average production from Alma/Galia was 6,740 Boepd, following delivery of first oil in October 2015.

By Q2 2016, six production wells were onstream. After analysis of the initial results, a production performance enhancement work programme was established. The K2 (AP5) well cleaned up naturally after a number of weeks of production resulting in significantly better performance. K1 (AP4) required a chemical treatment which was successful and the workover of the K3Z (AP1) well further increased production. Well K6 was not completed due to mechanical issues and was replaced by well K7 (AP6) which came onstream late in Q4. K7 (AP6) overall productivity has been broadly as anticipated.

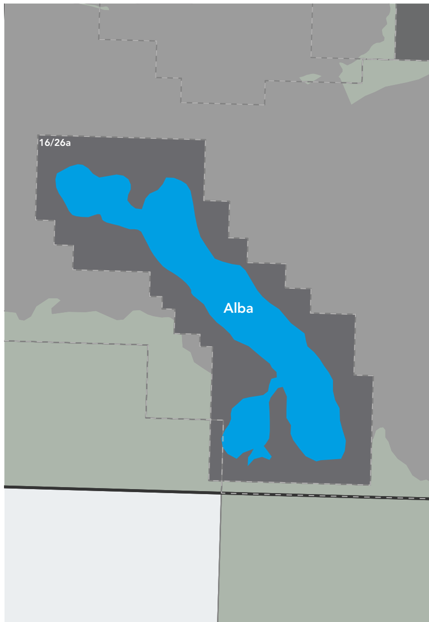
Productivity from Alma/Galia has been negatively impacted by well performance including ESP reliability. In October 2016, the EnQuest Producer was brought onto permanent power with the boiler and steam turbines online.

2017 and beyond

In 2017, the final phase of the power optimisation and the produced and sea water injection optimisation projects will be completed on the EnQuest Producer. Discussions are ongoing with the ESP supplier, on rectification plans to address the pump reliability issues. An unscheduled shutdown took place in January/February as a result of damage from severe winter storms; Alma/Galia performed well after being brought back onstream. A two week maintenance shutdown is scheduled for Q2 2017.

Operating review continued

North Sea operations



Alba (non-operated)

The Alba oil field is operated by Chevron.

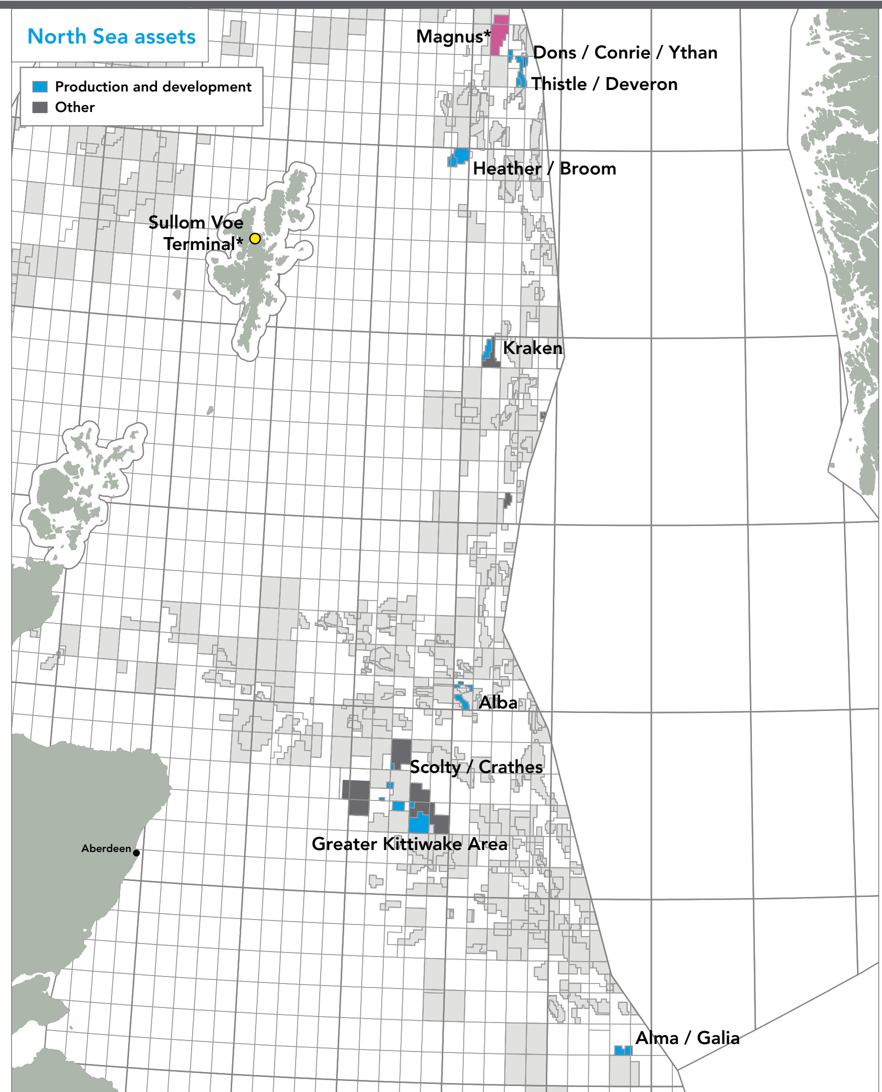
- **Working interest at end of 2016:** 8%
- **Decommissioning liabilities:** As per working interest
- **Fixed steel platform**
- **Daily average net production:**
  - 2016: 1,271 Boepd
  - 2015: 1,178 Boepd

2016

Across 2016, average production from Alba was 1,271 Boepd.

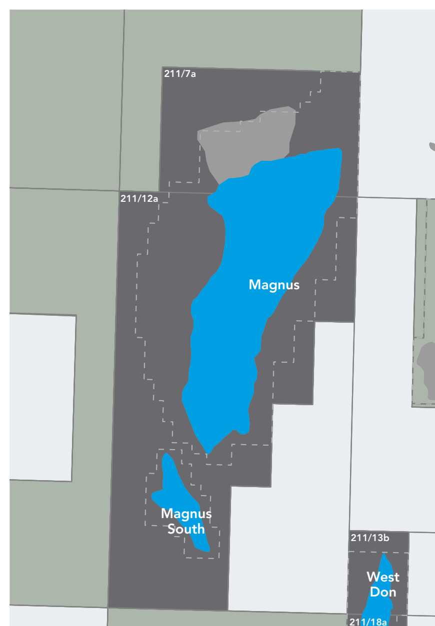
2017 and beyond

A maintenance shutdown is planned in Q3.



* In January 2017, EnQuest announced an agreement to acquire interests in the Magnus oil field and the Sullom Voe Terminal from BP.

Proposed acquisition of interests in the Magnus oil field and in the Sullom Voe Terminal



On 24 January 2017, EnQuest PLC announced an agreement to acquire from BP an initial 25% interest in the Magnus oil field representing c.16 MMboe of additional net 2P reserves (gross reserves of 63 MMboe) with net production of c.4,200 Boepd in 2016 (gross production c.16,600 Boepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT'), 9.0% of Northern Leg Gas Pipeline ('NLGP'), and 3.8% of Ninian Pipeline System ('NPS'). Prior to this transaction, EnQuest had existing interests of 3.0% in SVT, 5.9% in NLGP and 2.7% in NPS.

EnQuest is to become the operator of these assets and; the transaction is subject to certain regulatory, government authority, counterparty and partner consents. The transition for the change in operatorship is anticipated to take between 6 and 12 months from the date of the announcement.

Magnus

Magnus is a maturing asset with significant remaining potential.

Facilities

The Magnus platform is located in Block 211/12A and is the most northerly installation in the UKCS, its closest neighbours are Northern Producer (c.12 miles) and Thistle (c.19 miles). Magnus started operations in 1983. It has integrated production/drilling/accommodation facilities. Since 2010, its levels of operating efficiency have been low (30%–70%).

Reservoir and wells

The majority of hydrocarbons in place sit within the high quality Upper Jurassic turbidite Magnus Sandstone Member ('MSM'). Significant other resources sit in the Lower Kimmeridge Clay Formation ('LKCF'). Overall the Magnus field has 2.0 billion boe hydrocarbons initially in place ('HCIIP'), with an 54% Recovery Factor ('RF'). Over 100 well penetrations have been drilled in over 30 years, there are 28 platform slots and five subsea wells. It has 14 active gas-lifted producers and 10 injectors. Water Alternating Gas('WAG') enhanced oil recovery ('EOR') started in 2002 within the MSM. It has been monitored using 4D seismic surveys, the most recent of which was in 2013.

Sullom Voe Terminal ('SVT')

A strategic infrastructure hub

SVT was commissioned in 1978 and receives East of Shetland ('EoS') oil via two pipelines: the Brent Pipeline System ('BPS') which services Brent, Thistle, Northern Producer, Alwyn and TENCCA, and the Ninian Pipeline System ('NPS') which services Ninian, Magnus and Heather. EoS oil is stabilised, stored and offloaded to tankers. The peak EoS processing rate was 1.5 million bpd in 1985; the current rate is c.130,000 bpd.

Since 1998, the terminal has also provided services to West of Shetland ('WoS') fields. Schiehallion crude was tankered to SVT and used tanks and jetties. An additional oil pipeline from Clair was commissioned in 2005. Clair oil does not require stabilisation, but uses tanks and jetties. Gas from Foinaven Schiehallion and Clair is 'sweetened' at SVT before being shipped to Magnus, for EOR and onward export. The terminal has recently started to process condensate from Total's Laggan-Tormore development.

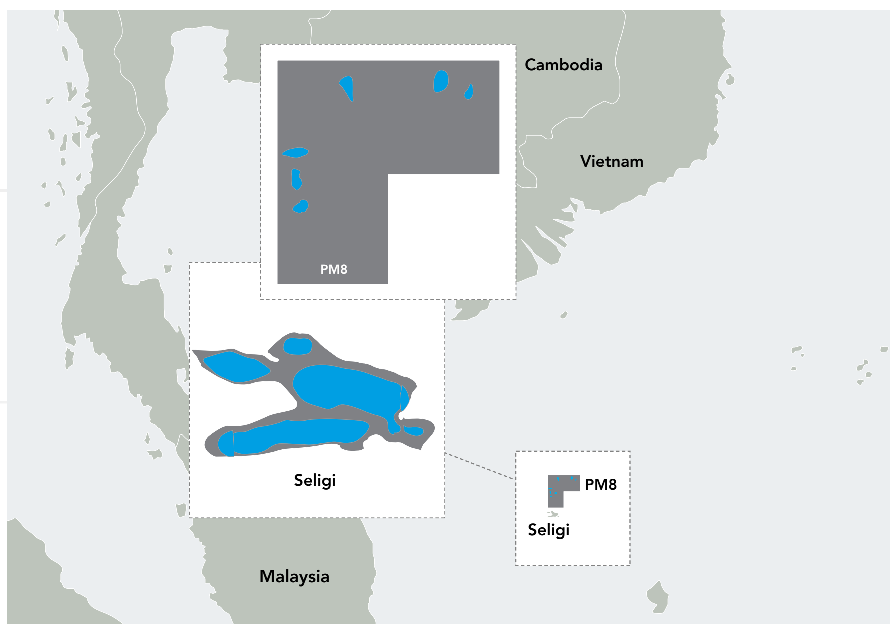
EnQuest people

Working collaboratively is the key to our success as a remotely located support function. Timely resolution to challenges and realising savings for the organisation is achieved through teamwork and trust of our peers in the UK office. Our one team approach is what sets EnQuest apart and drives us to ensure we avoid working in isolation.

Sachli Zare
Procurement Team Lead

Operating review continued

Malaysia operations



PM8/Seligi

- **Working interest at end 2016:** 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:**
  - 2016: 7,960 Boepd (working interest): 5,594 Boepd (entitlement)
  - 2015: 8,689 Boepd (working interest): 5,958 Boepd (entitlement)

2016

Across 2016, average production from PM8/Seligi was 7,960 Boepd.

Overall 2016 field performance was strong. Average annual production volumes were reduced by 21 days of maintenance shutdowns, compared to 3.5 shutdown days in 2015, and by lower gas sales, (325 Boepd), due to lower demand.

A total of 17 idle well strings were re-activated during 2016, adding an additional c.5,000 Boepd of gross production. This included two add-perforation jobs in November which added over c.1,000 Boepd of gross production. As a result of the successful idle well activation programme and improvements to plant stability at Seligi-A platform, the field achieved very strong levels of oil production.

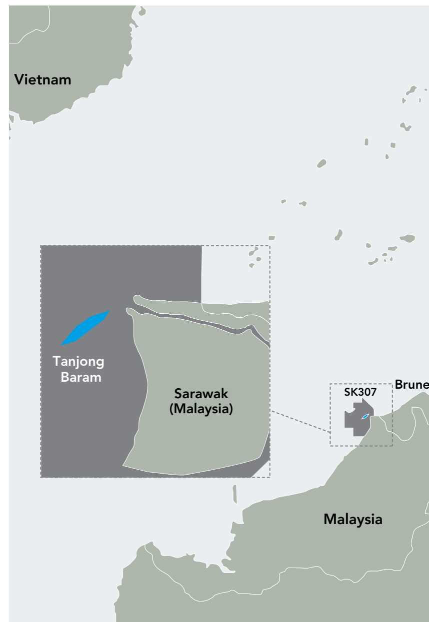
2017 and beyond

EnQuest will continue to enhance production by investing in low cost well interventions and facility projects to improve production efficiency, including gas compression control system upgrades to improve reliability. In addition, robust maintenance and integrity inspection campaigns of platform structures, topsides, and subsea pipelines will continue to ensure safe operations. This includes a planned annual maintenance shutdown in Q3 2017.

Longer term, EnQuest will extend field life through further investment in idle well restoration, facility improvements and upgrades and technical studies supporting development drilling and secondary recovery projects to increase ultimate recovery. During 2017, the first new drilling projects will be defined for execution in 2018, and significant progress will be made on rebuilding of static and dynamic reservoir simulation models in support of longer term field redevelopment.

"Gross production levels of over 20,000 Boepd were achieved during the first week of December, as a result of successful work on wells and topsides – the highest levels achieved at PM8/Seligi since EnQuest assumed operatorship in 2014."

Bob Davenport
General Manager, Malaysia



EnQuest people

Here at EnQuest, I enjoy what I do and everyone has a passion and persistent focus in delivering results, no matter how challenging things can be at times. By teaming up with my colleagues who carry the same level of passion, we can materialise promises into results, contributing to the success of the EnQuest business in Malaysia.

Garry Fernando
Operations Engineer

Tanjong Baram

- **Working interest at end 2016:** 70%
- **Decommissioning liabilities:** None
- **Daily average net production:**
  - 2016: 1,188 Boepd (working interest): 832 Boepd (entitlement)
  - 2015: 373 Boepd* (working interest): 261 Boepd (entitlement)

* 2015 data reflects net production from first production in June 2015 averaged over the 12 months to end December 2015.

2016

Across 2016, average production from Tanjong Baram was 1,188 Boepd.

Tanjong Baram operational efficiency and uptime remained high throughout the year.

2017 and beyond

Focus remains on steady, safe and low cost operations in 2017. In addition, three options aimed at reviving well A1 are under technical review; the review will be completed in H1 2017.

EnQuest people

I am excited that EnQuest Malaysia handles the first large scale project for late life asset extension. Working at EnQuest allows me to be a part of 'the first' here. We have passionate and highly driven people who collaborate through idea sharing, thinking and contributing towards achieving the objective, the first large scale field rejuvenation in Malaysia.

Wasmaziah (Was) Noordin
HR Business Partner, Talent Management and Recruitment Lead

Financial review

"In 2016 EnQuest worked diligently to streamline operating costs and conclude a complex financial restructuring that strengthened the balance sheet."

Financial overview

Following the significant decline in oil prices from late 2014, EnQuest has focused on delivering on execution targets, streamlining operations and strengthening the balance sheet. During 2016, the Company delivered its highest annual production since the Company started in 2010, brought the Scolty/Crathes development to first oil ahead of schedule and under budget, reduced its operating costs further and completed a comprehensive financial restructuring. This restructuring, which included amendments to the credit facility and bonds, as well as a placing and open offer, puts EnQuest in a stronger position to deliver the Kraken development in Q2 2017 and ensures that the Company is well placed to deliver value to shareholders in the medium term.

Production, on a working interest basis, increased by 9% to 39,751 Boepd, compared to 36,567 Boepd in 2015. This reflects a full year of production from Alma/Galia and Tanjong Baram, initial production from Scolty/Crathes, increased production from Heather/Broom, partially offset by the impact of longer shutdowns at other fields, mainly due to maintenance on third party infrastructure.

Reflecting EnQuest's drive to streamline operations, together with the increase in production volumes, unit operating costs reduced by 17% to $24.6 per barrel.

	Business performance	
	2016 $ million	2015 $ million
Profit from operations before tax and finance income/(costs)	**237.1**	173.9
Depletion and depreciation	**244.6**	305.9
Net foreign exchange (gains)/losses	**(51.9)**	(15.0)
Realised (gain)/loss on FX derivatives related to capital expenditure[(1)]	**47.3**	9.4
EBITDA	**477.1**	474.2

(1) Realised gains/losses on FX derivatives are recorded within cost of sales. Where the derivative hedges capital expenditure the gain/loss is added back when calculating EBITDA in order to reflect the underlying result of operating activities. Prior year EBITDA has been restated on a comparable basis by adding back realised loss on FX derivatives related to capital expenditure of $9.4 million.

EBITDA for the year ended 31 December 2016 was $477.1 million, compared with $474.2 million in 2015. Although increased production and lower operating costs have driven a higher EBITDA, this was partially offset by the impact of lower oil prices in 2016. The Group manages its exposure to oil prices by entering into commodity hedging contracts. This hedge portfolio contributed $255.8 million to EBITDA in 2016 (2015: $261.2 million).

Profit after tax, on a business performance basis, was $121.5 million, compared with $127.8 million in 2015. After remeasurements and exceptional items, the Group recorded a net profit of $185.2 million, compared with a loss of $759.5 million in 2015.

Reflecting the ongoing investments EnQuest has made to develop its assets, notably Kraken, EnQuest's net debt has increased from $1.55 billion at the end of 2015 to $1.80 billion at 31 December 2016.

	Net debt/(cash)	
	31 December 2016 $ million	31 December 2015 $ million
Bonds[(1)]	**868.7**	879.7
Credit Facility[(1)]	**1,037.5**	902.3
Tanjong Baram project finance facility[(1)]	**24.9**	35.0
Other loans[(1)]	**40.0**	–
Cash and cash equivalents	**(174.6)**	(269.0)
Net debt	**1,796.5**	1,548.0

(1) Stated excluding accrued interest and excluding the net-off of unamortised fees (refer note 19 of the Group financial statements).

As at 31 December 2016, total cash and undrawn facilities totalled $330.9 million.

As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately $2.9 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 the Malaysian assets which will continue throughout the life of the production sharing contract.

Income statement

Production and revenue

Production, on a working interest basis, increased by 9% to 39,751 Boepd, compared to 36,567 Boepd in 2015. This included a full year of production from Alma/Galia and Tanjong Baram, contributing 6,740 Boepd and 1,188 Boepd, respectively (2015: 1,083 Boepd and 373 Boepd, respectively). Productivity at Alma/Galia, which achieved first oil in October 2015, has been negatively impacted by well performance this year. Heather/Broom demonstrated strong production performance, contributing 5,948 Boepd (2015: 4,643 Boepd), resulting from increased water injection reliability and the continuing benefits of the 2015 wells workover programme. Scolty/Crathes, which achieved first oil in November 2016, has made a promising start, contributing 719 Boepd to annual production. Production at other fields was adversely affected by longer shutdowns than in 2015, including the impact of maintenance carried out on third party infrastructure taking longer than anticipated.

On average, oil prices in 2016 were lower than in 2015. The Group's blended average realised price per barrel of oil sold excluding hedging was $44.3 for the year ended 31 December 2016, compared to $50.9 during 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2016 crude oil sales totalled $577.8 million compared with $634.3 million in 2015. The decrease in revenue was due to the lower oil price, offset partially by higher production. Revenue from the sale of condensate and gas was $3.6 million (2015: $1.9 million) and tariffs and other income generated $12.4 million (2015: $9.2 million).

The Group's commodity hedges and other oil derivatives generated $255.8 million of realised income (2015: $261.2 million). This includes $31.2 million of non-cash amortisation of option premiums and $2.5 million of hedge accounting gains deferred from 2015 (2015: $111.6 million of non-cash amortisation of option premiums). The Group's average realised oil price after hedging was $63.8 per barrel in 2016 compared with $72.0 per barrel in 2015.

Revenue and other operating income also includes an unrealised loss of $51.5 million recognised within exceptional items in respect of the unrealised mark to market loss on the Group's commodity contracts (2015: unrealised gain of $1.9 million). This relates mainly to swap contracts in place at 31 December 2016 hedging 2017 production, where 6 MMbbls were hedged at an average fixed price of $51 per bbl.

Cost of sales

Cost of sales, on a business performance basis, was as follows:

	Business performance	
	2016 $ million	2015 $ million
Production costs	**279.7**	318.4
Tariff and transportation expenses	**58.1**	69.1
Realised loss/(gain) on FX derivatives related to operating costs	**19.6**	(6.2)
Operating costs	**357.4**	381.3
Realised loss on FX derivatives related to capital expenditure	**47.3**	9.4
Change in lifting position and inventory	**2.8**	28.5
Depletion of oil and gas assets	**240.6**	298.9
Other cost of sales	**5.4**	15.3
Cost of sales	**653.5**	733.4

	$/bbl	$/bbl
Operating cost per barrel[(1)]		
– Production costs	**20.4**	23.4
– Tariff and transportation expenses	**4.2**	6.3
	24.6	29.7

(1) Calculated on a working interest basis.

Business performance cost of sales was $653.5 million for the year ended 31 December 2016 compared with $733.4 million for 2015. Although production has increased year-on-year, operating costs decreased by $23.9 million, reflecting EnQuest's ongoing cost saving initiatives and the benefit of a weaker Sterling exchange rate, partially offset by an increase in realised losses on foreign currency derivatives related to operating costs of $25.8 million. On a per barrel basis, the Group's average operating cost per barrel has decreased by 17% to $24.6 per barrel, reflecting the cost reductions and foreign exchange benefits above, together with the impact of 9% higher production.

Cost of sales include realised losses on foreign currency derivatives related to capital expenditure of $47.3 million, reflecting the significant devaluation of Sterling against the US Dollar since June 2016 (2015: loss of $9.4 million).

The Group's overlift position decreased significantly during the year, primarily reflecting the unwind of the balances that had accrued at 31 December 2015 on Thistle and GKA. The impact of this movement on the change in lifting position recognised in cost of sales was offset by the impact of higher oil prices on the valuation of the position at 31 December 2016 compared to 31 December 2015, resulting in an overall $2.8 million expense in 2016 (2015: $28.5 million).

Depletion expense of $240.6 million was $58.3 million lower than the prior year, reflecting the impact of impairments recognised for the year ended 31 December 2015 on the average depletion rate, which decreased from $22.4 per barrel to $16.6 per barrel, partially offset by the impact of increased production.

Other cost of sales, which principally include the supplemental payment due on profit oil in Malaysia, decreased by $9.9 million, reflecting the impact of lower oil prices on the supplemental payment.

General and administrative expenses

General and administrative expenses were $10.9 million during the year ended 31 December 2016, compared with $14.4 million reported in 2015. The decrease reflects the benefit of the devaluation of Sterling against the US Dollar on UK costs and the recovery of overheads.

Financial review continued

Other income and expenses
Other income of $51.9 million almost entirely comprises net foreign exchange gains, which relate primarily to the revaluation of Sterling denominated amounts in the balance sheet following the devaluation of Sterling against the US Dollar.

Taxation
The tax credit for the year ended 31 December 2016 of $5.2 million (2015: $129.3 million tax credit), excluding exceptional items, is primarily due to Ring Fence Expenditure Supplement on UK activities and the tax effect on foreign exchange gains.

Finance costs
Finance costs of $122.2 million (2015: $176.4 million) include $110.5 million of bond and loan interest payable (2015: $80.2 million), $14.1 million unwinding of discount on provisions and liabilities (2015: $22.3 million), $36.5 million relating to the amortisation of premium on options designated as hedges of production (2015: $70.0 million), $5.9 amortisation of arrangement fees for the bank facilities and bonds (2015: $7.3 million) and other financial expenses of $10.5 million (2015: $11.0 million), primarily commitment and letter of credit fees. The Group capitalised interest of $55.3 million in relation to the interest payable on borrowing costs on its capital development projects, primarily the Kraken development (2015: $14.4 million).

Finance income
Finance income of $1.4 million includes $0.3 million of bank interest receivable and $1.0 million unwinding of the discounts on financial assets (2015: $0.3 million and $0.6 million, respectively).

Remeasurements and exceptional items
Remeasurements and exceptional items resulting in a net profit of $101.0 million before tax have been disclosed separately for the year ended 31 December 2016. These mainly include a net reversal of impairments of $147.9 million following the recovery of oil prices since last year, unrealised losses on commodity and foreign currency derivative contracts of $22.0 million, a $16.2 million loss on disposal of the Avalon asset, a $22.9 million credit arising from the derecognition of an onerous contract provision for the Stena Spey drilling vessel, reflecting the contracted days having been utilised in full, and a $3.4 million credit arising from the derecognition of a provision for contingent consideration in relation to the Eagle prospect, no longer expected to be payable. Exceptional items also include a $38.1 million loss on extinguishment of the Group's credit facility as a result of the debt restructuring completed 21 November 2016, comprising the write-off of unamortised costs at the date of restructuring of $15.0 million, plus the expensing of costs associated with the restructuring of the facility of $23.1 million.

A tax charge of $37.3 million has been presented as exceptional, comprising a tax charge of $56.6 million relating to the tax impact of the above exceptional items and a tax credit of $19.3 million related to the recognition of UK tax losses previously written off, offset by the decrease in the supplementary charge on UK oil and gas production to 10%, with effect from 1 January 2016, and the decrease in Petroleum Revenue Tax ('PRT') to 0%, with effect from 1 January 2016.

Earnings per share
The Group's reported basic earnings per share was 22.7 cents for the year ended 31 December 2016 compared with loss per share of 98.0 cents for the year ended 31 December 2015. The Group's reported diluted earnings per share was 22.1 cents for the year ended 31 December 2016 compared with diluted loss per share of 98.0 cents for the year ended 31 December 2015.

Cash flow and liquidity
The Group's net cash flow from operating activities for the year ended 31 December 2016 was $379.5 million compared with $244.6 million for the same period last year. In part, this is due to the increased production and lower operating expenditure. Cash generated from operations also includes an inflow of $198.8 million from commodity hedging and outflow of $66.9 million from foreign exchange hedging (2015: inflow of $68.6 million and outflow of $3.2 million, respectively).

Net debt at 31 December 2016 amounted to $1,796.5 million compared with net debt of $1,548.0 million at 31 December 2015. The movement in net debt was as follows:

Net debt 1 January 2016	**(1,548.0)**
Net cash flows from operating activities	379.5
Cash capex[(1)]	(609.2)
Net interest and finance costs paid	(92.7)
Non-cash capitalisation of interest to principal of bonds and credit facility[(2)]	(27.7)
Gross proceeds from issue of shares	101.6
Shares purchased by Employee Benefit Trust	(3.1)
Financial restructuring costs paid	(21.2)
Net foreign exchange gain on cash and debt	28.7
Other	(4.4)
Net debt 31 December 2016	**(1,796.5)**

(1) Cash capex is stated net of proceeds from disposals of $1.5 million.
(2) Pursuant to the Restructuring, effective 21 November 2016, $27.5 million of accrued, unpaid interest was capitalised and added to the principal of the high yield bond and $0.2 million of accrued, unpaid interest was capitalised to the principal of the credit facility as an amount payable in kind ('PIK Amount') (refer note 19 of the Group financial statements).

It is anticipated that the underlying effective tax rate for 2017 will be below the UK statutory tax rate of 40%, 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:

	2016 $ million	2015 $ million
North Sea development expenditure	**592.2**	677.4
Malaysia development expenditure	**8.2**	90.2
Exploration and evaluation capital expenditure	**8.9**	19.6
Other capital expenditure	**1.4**	39.4
Proceeds from disposal of Aberdeen office building	**–**	(68.4)
Other proceeds	**(1.5)**	(7.1)
	609.2	751.1

A total of $428.8 million was spent during 2016 on the Kraken development, where the subsea installation programme has now been completed and excellent progress was made on the drilling programme. Other significant projects undertaken during the year included the completion of the Scolty/Crathes development, drilling of the K7 (AP6) well and workover of the K3Z (AP1) well at Alma/Galia and drilling the Eagle exploration well.

On 21 November 2016, the Company concluded a comprehensive financial restructuring comprising: amendments to the credit facility, high yield bond and retail bond; renewal of surety bond facilities; and a placing and open offer (the 'Restructuring'). The Restructuring significantly improved EnQuest's liquidity position and included the following measures:

- the placing and open offer resulted in the issue of, in aggregate, 356,738,114 new ordinary shares at an issue price of 23 pence per share and generated gross cash proceeds of $101.6 million;
- $176.3 million available for drawdown under the credit facility, as at the restructuring date, with maturity extended to October 2021, the amortisation profile amended and certain financial covenants relaxed;
- accrued, unpaid interest on the high yield bond as at the restructuring date of $27.5 million was capitalised and added to the principal amount of the bond;

- future interest payments due on the both retail and high yield bonds will only be payable in cash where the average prevailing oil price (dated Brent future, as published by Platts) for the six month period immediately preceding the day which is one month prior to the relevant interest payment date being at least $65 per barrel; otherwise interest payable is capitalised to principal, repayable at maturity; and
- option exercisable by the Company to extend the maturity date of the high yield bond and retail bond from April 2022 to April 2023 with a further automatic extension of the maturity date to October 2023 if the credit facility is not fully repaid or refinanced by October 2020.

EnQuest has assessed that the Restructuring has resulted in a substantial modification of the terms of its credit facility. Accordingly, extinguishment accounting has been applied, resulting in the derecognition of the carrying value of the facility, including unamortised arrangement fees of $15.0 million, and the recognition of a new financial liability for the revised facility at fair value. Costs of $23.1 million associated with the renegotiation of the facility have been expensed to the income statement as exceptional finance costs.

The impact of the Restructuring on the high yield bond and retail bond has been assessed as not being substantial, resulting in $5.9 million of costs associated with the renegotiation of the bonds being deducted from the carrying values of the bond liabilities in the balance sheet. These costs, along with previous unamortised arrangement fees, will be amortised to the income statement over the revised term of the bonds.

The Group has remained in compliance with financial covenants under its debt facilities throughout the period and managing ongoing compliance remains a priority.

Balance sheet

The Group's total asset value has increased by $148.7 million to $3,926.0 million at 31 December 2016 (2015: $3,777.3 million).

Property, plant and equipment

Property, plant and equipment ('PP&E') has increased to $2,963.4 million at 31 December 2016 from $2,436.7 million at 31 December 2015.

The increase of $526.7 million is composed of additions to PP&E of $632.5 million, acquisitions of $40.7 million in respect of additional interests in the Kraken and West Don fields acquired from First Oil, an additional $26.0 million primarily in respect of the Kraken contingent carry recognised during the year, a decrease of $74.8 million for net changes in estimates for decommissioning, the KUFPEC cost recovery provision and other provisions, offset by depletion and depreciation charges of $245.8 million. In addition, the recovery of the oil price since last year, together with the positive impact on the Group's North Sea cost base of the weakening of the GBP/USD rate, has led to a net reversal of $147.9 million of impairments booked in the prior year.

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

	2016 $ million
Kraken	**476.6**
Scolty/Crathes	**76.4**
Thistle	**18.5**
Alma/Galia	**49.1**
Other North Sea	**7.5**
Malaysia	**4.4**
	632.5

Intangible oil and gas assets

Intangible oil and gas assets increased to $50.3 million at 31 December 2016 from $46.5 million at 31 December 2015. The increase of $3.8 million comprises additions of $18.8 million, disposals of $17.6 million relating to the Avalon discovery, which was sold for $1.5 million, an increase of $3.6 million for change in decommissioning provision and write-offs, impairments and other movements of $2.0 million. Additions mainly relate to the Eagle exploration well, drilled on a 100% working interest basis in the Greater Kittiwake Area. The Eagle well has been confirmed as a discovery and further assessment of the results are underway.

Trade and other receivables

Trade and other receivables have decreased by $149.2 million to $202.7 million at 31 December 2016 compared with $351.9 million at 31 December 2015. The decrease relates mainly to capital expenditure related prepayments, which are capitalised based on the timing of work performed, a decrease in trade receivables due to the timing of crude oil sales and other working capital movements.

Cash and net debt

The Group had $174.6 million of cash and cash equivalents at 31 December 2016 and $1,796.5 million of net debt (2015: $269.0 million and $1,548.0 million, respectively). Net debt* comprises the following liabilities:

- $191.3 million principal outstanding on the £155 million retail bond;
- $677.5 million principal outstanding on the high yield bond, including capitalised interest of $27.5 million pursuant to the Restructuring;
- $1,037.5 million carrying value of credit facility, comprising amounts drawn down of $1,037.3 and interest of $0.2 million capitalised as an amount payable in kind ('PIK Amount');
- $40.0 million loan facility drawn down from a trade creditor during the year; and
- $24.9 million principal outstanding on the Tanjong Baram project finance facility.

* Net debt excludes accrued interest and the net-off of unamortised fees (refer note 19 of the Group financial statements).

Provisions

The Group's decommissioning provision decreased by $12.9 million to $493.9 million at 31 December 2016 (2015: $506.8 million). The movement is explained by additions of $49.8 million for Kraken, Scolty/Crathes and Eagle based on drilling and development carried out during the period, $15.2 million arising from the acquisition of additional interests in the Kraken and West Don fields, reductions of $6.4 million for decommissioning carried out during the year and $82.2 million due to changes in estimates, including the impact of the devaluation of Sterling against the US Dollar, partially offset by $10.7 million unwinding of discount.

A liability of $26.6 million was provided for at 30 June 2016 following an independent reserves determination to assess the contingent consideration payable for Kraken, with a corresponding addition recorded in PP&E. Following payments made during the second half of the year, $5.5 million remained outstanding at 31 December 2016.

An onerous contract provision of $22.9 million for the Stena Spey drilling vessel was derecognised during the period, as the contracted days were utilised fully.

Income tax

The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2016, which remains unchanged from 31 December 2015. The income tax asset at 31 December 2016 represents UK corporation tax receivable in relation to non-upstream activities and the income tax payable is in relation to the activity in Malaysia.

Deferred tax

The Group's net deferred tax asset has increased from $79.3 million at 31 December 2015 to $191.7 million at 31 December 2016. This movement includes the re-recognition of deferred tax assets totalling $48.8 million, following the improvement in the forecast profitability of the Group, a reduction in deferred tax assets of $29.5 million due to the reduction in the statutory PRT rate and the reduction in supplementary charge on UK oil and gas production, a reduction in deferred tax liability on realised hedges of $134.2 million and an increase in deferred tax liabilities of $73.8 million due to write back of previously impaired assets. Total UK tax losses carried forward at the year-end amount to approximately $2,893.7 million.

Financial review continued

Trade and other payables
Trade and other payables have decreased to $452.8 million at 31 December 2016, of which $42.6 million are payable after more than one year (2015: $543.5 million, all payable within one year). The decrease mainly reflects the settlement of invoices for capital expenditure at Kraken and Scolty/Crathes, for which payment was previously deferred in accordance with supplier agreements. Remaining deferred amounts at 31 December 2016 of $176.8 million are contractually due for settlement in instalments over 2017 and 2018.

Other financial liabilities
Other current financial liabilities have increased by $35.1 million to $44.3 million. The increase relates primarily to mark-to-market movements on commodity derivatives hedging 2017 production.

Other non-current financial liabilities of $19.8 million (2015: $7.7 million) relate mainly to waiver fees payable to credit facility lenders and also to the Group's liability to carry PETRONAS Carigali for its share of exploration or appraisal well commitments in relation to the PM8/Seligi asset in Malaysia.

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 allow availability of cash flow for reinvestment in capital programmes that are driving business growth.

During 2015 the Group entered into commodity hedging contracts to hedge a portion of its 2016 production against fluctuations in oil prices. This included bought put options over 8 MMbbls with an average strike price of $68 per barrel and oil swap contracts to sell 2 MMbbls at an average fixed price of $67 per barrel. These contracts, to which hedge accounting was applied, matured over the course of 2016 and realised $237.2 million of revenue and operating income. A gain of $2.5 million generated in 2015, which had been deferred in the cash flow hedge reserve at 31 December 2015 to match the timing of the underlying production being hedged, was also recognised as realised revenue and operating income in 2016.

At 31 December 2016, the Group's commodity derivative contracts included swap contracts to sell 6 MMbbls at an average fixed price of $51 per barrel, maturing through 2017. The Group has elected not to apply hedge accounting to these contracts, which had a negative fair value and generated an unrealised mark to market loss of $40.5 million, recognised in revenue and other operating income.

Outside of its core hedge portfolio, during 2016 the Group also entered into call options, swaps contracts and futures, accounted for at fair value through profit or loss, which generated $7.6 million of revenue and other operating income.

Finance costs of $5.4 million have been recognised, representing the movement in the time value of put options which have been designated as effective hedges of production.

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 2016, the Group's foreign currency hedging portfolio realised a loss of $66.9 million, recognised within cost of sales, of which $19.6 million related to hedges of operating expenditure and $47.3 million related to hedges of capital expenditure. The loss arose principally in relation to contracts to purchase Sterling, which devalued significantly against the US Dollar from June 2016 onwards. Changes in the fair value of these contracts also resulted in an unrealised credit of $7.8 million to cost of sales.

At 31 December 2016, the Group had foreign exchange forward contracts in place over NOK37.1 million at a fixed rate of NOK7.82/$. These contracts had a negative net fair value of $0.5 million at 31 December 2016 and expire during the first half of 2017.

In the first half of 2016, the Group entered into a chooser structure covering the first half of 2017. The counterparty can choose to sell £47.5 million to EnQuest at an exchange rate of $1.4:£1.0 or purchase 1,320,000 barrels of oil at $58/bbl. The contract had a negative fair value of $9.3 million at 31 December 2016. Subsequent to year-end, the Group entered into a similar chooser contract covering the second half of 2017 where the counterparty can choose to sell £66.0 million to EnQuest at an exchange rate of $1.2:£1.0 or purchase 1,500,000 barrels of oil at $60 per barrel.

EnQuest continually reviews its currency exposures and when appropriate looks at opportunities to enter into foreign exchange hedging contracts.

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

Going concern
The Group closely monitors and manages its 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.

On 21 November 2016, EnQuest announced a restructuring which comprised the implementation of the RCF Amendments, the Note Amendments, the renewal of the Surety Bond Facilities and the completion of a placing and open offer (collectively 'the Restructuring').

The completion of the Restructuring provides the Group with a more stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity. These will all contribute to ensuring that the Group is in a stronger position to pursue its strategy of targeting mature and marginal oil assets and its focus on cost efficiency during a prolonged period of low oil prices. In particular, the Restructuring enables the Group to complete the Kraken project.

Following the significant decline in oil prices from late 2014, management has continued to take action to implement cost saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2017 and 2018.

At year end, the Group had available cash and bank facilities of $330.9 million and headroom on its related financial covenants under the RCF Amendments. The Group's forecasts and projections take into account the actions described in the preceding paragraph, and reflect the assumption that the Group's major projects remain on track.

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 Group's business plan (base case) which underpins this assessment assumes Kraken first oil in Q2 2017 and uses an oil price assumption of $55/bbl throughout 2017, and $60/bbl in the first quarter of 2018 and this has been further stressed tested under a plausible downside case (downside case) as described in the viability statement. The Directors consider the base case and downside case to be an appropriate basis on which to make their assessment.

The base case and downside case indicate that the Company 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. Should there be any potential covenant breaches

the Directors are confident that such breaches would be avoided or remedied by either executing other funding options or asset sales (mitigating actions) or obtaining waivers and/or consents from the Facility providers in order to ensure that the Facility remains available. The Directors believe that the mitigating actions would be achievable in the necessary timeframe or, if required, that the waivers and/or consents would be forthcoming.

The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2020. This assessment has taken into account the Group's financial position as at March 2017, 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 40 to 47.

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 Facility will be due to be partly repaid or refinanced.

Based on the 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 2020.

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

This also assumes that the Facility providers will continue to provide access to sufficient funding for the duration of the three year period under review. The forecasts which underpin this assessment use the same oil price assumption as for the going concern assessment with a longer term price assumption for the viability statement being aligned to the current forward curve. The base case reflects significant steps already underway to reduce operating and capital expenditure in light of continuing lower oil prices. The position is consistent with the statement made at the time of the Restructuring that if oil prices were to stay at the levels at that time of approximately $50 per barrel or if oil prices were to decline, it is highly likely that the Company would be unable to return any value to its shareholders.

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

- **Oil price volatility**
  To mitigate oil price volatility, the Directors hedged 6 MMbbls of 2017 production at an average price of $51 per barrel. As further mitigation the Directors, in line with Group policy, the Group will continue to pursue hedging at the appropriate time and price.

- **Project execution**
  The Group's planned capital expenditure during the three year period covered by the viability assessment principally relates to the remaining expenditure to first oil on the Kraken development (which remains on track) and the future phases of the drilling programme on Kraken. Much of this expenditure has been contracted under fixed price lump sum contracts, therefore there is limited risk that this capital expenditure could exceed that projected and/or that commissioning of projects, in particular Kraken, could occur later than projected.

  The Directors and management team monitor project progress against key milestones and ensure timely intervention as appropriate.

- **Access to funding**
  The Directors recognise the importance of ensuring medium term liquidity and in particular to protect against potential future declines in the oil price. EnQuest has a diversified funding structure and, following the Restructuring, it has a committed $1.125 billion Tranche A Term Loan and a further Tranche B $75 million Revolving Credit Facility. Repayment of the Facility commences in April 2018 with the final repayment due in October 2021. In addition, the maturity dates of the $650 million High Yield Bond and the £155 million Retail Notes have been amended to April 2022, with an option exercisable by the Company (at its absolute discretion) to extend the maturity date by one year and an automatic further extension of the maturity date to October 2023 if the Existing RCF is not fully repaid or refinanced by October 2020. A further condition to the payment of interest in cash is based on, amongst other things, the average prevailing oil price (dated Brent future (as published by Platts)) for the six month period immediately preceding the day which is one month prior to the relevant interest payment date being at least $65/bbl; otherwise interest payable is to be capitalised.

  Should there be any potential covenant breaches, the Directors are confident that such breaches would be avoided or remedied by either executing other funding options or asset sales (mitigating actions) or obtaining waivers and/or consents from the Facility providers in order to ensure that the Facility remains available.

  The Directors believe that the mitigating actions would be achievable in the necessary timeframe or, if required, that the waivers and/or consents would be forthcoming.

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

Specifically the base case has been subjected to stress testing by considering the impact of the following plausible downside risks:
- a 10% discount to the oil price forward curve;
- a 5% reduction in production (excluding Kraken as this is already risked in the base case); and
- a 5% increase in operating costs except for fixed costs related to the Kraken FPSO.

A scenario has been run illustrating the impact of the above risks on the base case. This plausible downside case indicates the need for mitigating actions to be undertaken for the Group to be viable in the three year period.

In light of this, the Directors are also pursuing a number of mitigations to improve medium term liquidity. These options include, but are not limited to:
- asset sales; and
- other funding options.

The Directors believe that there are a number of options available to them and that only a small number of the potential asset sales or funding options would need successfully to be executed in order for the Group to remain viable for the three year period.

The Group would also seek to modify or temporarily waive existing covenants and loan amortisation should the need arise. The lenders continue to be supportive as demonstrated by the recent Restructuring. There is also regular dialogue with lenders to ensure that they remain informed of progress on the key projects and operations and the projections underpinning the liquidity position.

Having reviewed the Group's financial position as at March 2017, 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 2020 and therefore support this viability statement.

Corporate responsibility review

"EnQuest's comprehensive UK HSE&A audit programme underlines our focus upon improvement through the detection and resolution of issues before they potentially materialise as incidents."

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

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

Key HSE&A performance indicators	2016	2015	2014
North Sea Lost Time Incident Frequency ('LTIF')	**0.82**	2.14	0.00
Malaysia LTIF	**0.00**	0.00	N/A

The EnQuest Board receives regular information on the HSE&A performance of the Company, and specifically monitors health and safety and environmental reporting at each Board meeting. In 2016, EnQuest maintained its commitment to the delivery of continual improvement in HSE&A performance, with excellent results in many areas, but with some areas running below target and requiring fresh actions to be undertaken.

Our Lost Time Injury ('LTI') performance remained strong: our Kittiwake, Northern Producer and EnQuest Producer assets in the North Sea all recorded an LTI free year. In October, Kittiwake also marked an industry leading 11 years without an LTI.

In our Malaysian operations, we recorded zero LTIs and were pleased to achieve a below target Total Recordable Incident Frequency ('TRIF') for the year.

By contrast, the year presented challenges in relation to hydrocarbon releases in our North Sea operations, despite focused efforts to deliver a reduction. After underperforming our targeted number of releases in the first half of 2016, we revisited and restated our Hydrocarbon Release Prevention ('HCRP') Improvement Plan. This was preceded by the appointment of a full time HCRP coordinator, further scrutiny of lessons learned from incident investigations and the identification of gaps in our management systems through detailed audits.

Although there was no significant reduction in the number of oil and chemical releases to sea across the full year 2016, we witnessed a significant improvement in the mass of oil released, recording a 56% reduction on 2015 levels. This provides robust evidence that our focus on reducing this type of release has been effective. Chemical releases to sea were predominantly (71% by mass) caused by the inadvertent release of subsea hydraulic fluids that have negligible environmental impact and are designed so that any such discharges to the sea are innocuous.

We completed a comprehensive UK HSE&A audit programme, with outcomes fed into our 2017 Continual Improvement Programme. This underlines our focus upon improvement through the detection and resolution of issues before they potentially materialise as incidents.

In Q2 2016 in Malaysia, we pre-emptively shut down the PM8/Seligi asset to perform safety checks and inspections that were deemed prudent and we worked proactively to close down associated audit findings; following which production returned to good levels.

Evidence of our continued commitment to improvement was demonstrated through the following outcomes against our 2016 HSE&A Continual Improvement Plan:

- Continued focus on coaching our workforce to identify, understand and control hazards in the workplace
- Further developing the capabilities of elected Safety Representatives and Environment Representatives through structured engagement sessions
- The launch of Life Saving Rules to underline the importance of maintaining standards and encouraging procedural compliance
- Demonstration of our commitment to industry simplification and standardisation initiatives by adopting industry standard tools for observational safety and tool box talks.

Other 2016 milestones included:

- Successful completion of a statutory evaluation of our Emergency Pollution Control systems and capabilities by The Secretary of State's Representative for Marine and Salvage Intervention ('SOSREP').
- Independent verification of our Environmental Management System ('EMS'), a statutory requirement of the Convention for the Protection of the Marine Environment of the North-East Atlantic ('OSPAR').
- The launch of *SAFE Behaviours*, the next evolutionary step in our HSE improvement journey.

Via *SAFE* Behaviours, we reinforce our focus on the key behavioural aspects required to deliver Safe Results.

These are:

Standards

Set the highest standards and endorse rules

Awareness

Prioritise hazard awareness in the workplace

Fairness

Recognise good behaviours and not tolerate poor ones

Engagement

Keep SAFE at the top of the agenda

For reporting of EnQuest's greenhouse gas emissions in 2016, see page 86 of the Directors' report.

People

The business wide strategy of cost management was also reflected in our people management activities. These nonetheless also continued to be focused proactively on optimising the performance of the workforce and supporting staff in the achievement of their professional development goals.

The challenges posed by the prevailing economic conditions required a reduction in overall North Sea staff numbers early in 2016. EnQuest sought to keep job losses to a minimum and to complete the process with due consideration and respect for those directly impacted.

Cost efficiencies were achieved in a range of ways. These included the relocation of the accounts payable function to Dubai – following the transfer of the purchasing support work there in 2015 and restructuring exercises in several departments, including finance and human resources.

A number of our people have transferred to other organisations under Transfer of Undertakings Protection of Employment ('TUPE') regulations. They are performing the same roles in support of EnQuest operations but this change represents a means of sourcing specialist services more cost effectively in specific areas.

We have continued to examine the capabilities of the people who work for EnQuest and have sought to capitalise on their collective competencies and experience. As part of this exercise, more of our contractors were encouraged to, and elected to, become direct EnQuest employees during the year. This ensures that our key employees are all aligned behind the business deliverables and priorities and supports one of our aims to manage our own talent pool directly.

Our Central North Sea operations have, as planned, adopted an equal time rota in 2016. This aligns them with our Northern North Sea assets, which moved to an equal time rota in 2015.

Throughout the year, close and regular engagement with staff remained a priority and a variety of mechanisms was used to deliver on this ongoing commitment, including weekly briefings, quarterly townhalls and opportunities to meet with senior leaders on a formal and informal basis.

There was a specific focus in our UK operations upon performance management, to enable individuals to make the most of their skills and capabilities and make the greatest possible contribution to the next phase of EnQuest's operational development, whilst ensuring that underperformance has been managed. This was equally the case in Malaysia.

Competency levels offshore remain a priority in both the UK and Malaysia, with systems being built to ensure the appropriate level of assessment and development of our people. In Malaysia, we formed a partnership with capability service provider Institut Teknologi Petroleum PETRONAS ('INSTEP') and capability metrics for offshore installation managers, defining the skills required for the role, were established in partnership with the operations team.

In Malaysia, we also built our capabilities by recruiting in key subsurface, operations and finance roles and focused on succession planning with a baseline assessment related to critical positions.

We made good on our commitment to engage with the Malaysian initiative Programme for the Development of Ingenious Young Talent ('PRODIGY'), bringing two sponsored graduates into our process operations and wells functions. We also initiated the first petroleum engineering internship programme with a student from the Universiti Teknoloji PETRONAS.

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.

Additionally, EnQuest remains committed to diversity, including diversity of skills, experience, nationality and gender in its appointments to the Board and within the Executive/Senior management teams and will continue to do so, recruiting individuals on merit and their suitability for the role and cognisant of the skills and experience of the rest of the Executive and Senior management.

Community

EnQuest focused in 2016 upon sustaining and enhancing its long term relationships with partner organisations in our local community in Aberdeen.

We donated over 400 books to the city's Tullos Primary School in support of its objective to create a literary rich environment for pupils. Augmented by donations of books by individual members of EnQuest staff, the contribution equated to a book for every child at the school.

EnQuest has supported the school for six years and again in 2016 organised a visit for youngsters to a division of contractor Subsea 7. The objective of the tour at remotely operated vehicle ('ROV') provider i-Tech was to introduce pupils to the energy industry and show the career opportunities it offers. The visit included opportunities for the youngsters to participate in simulator operations and view subsea tooling equipment.

Book donation to Tullos Primary School

Corporate responsibility review continued

EnQuest provided further support for the charity Archway. We have a long standing partnership with the organisation, which provides services for children and adults with learning disabilities. A series of fund raising events during this year has brought the total we have realised for the Aberdeen based charity, since our involvement began, to over £162,000.

Among the other organisations supported by our charity committee in 2016 was the Grampian Transport Museum Young Engineers Club, which runs a variety of initiatives to promote science, technology and engineering to secondary school pupils.

EnQuest encourages and supports its employees to actively contribute to society, focusing particularly on local communities. In 2016, we made charitable donations in support of employees who took part in a wide variety of sporting and charitable events, including the Edinburgh Marathon, a cycle trip from Land's End to John o' Groats and a 50 mile duathlon in the Scottish Highlands.

Several of our staff also encourage engineering as a profession through careers fairs and talks held under the auspices of the Energy Institute.

In Malaysia, an inspiring corporate social responsibility ('CSR') project involved local staff visiting a Centre for the Disabled in Kemaman, Terengganu. Organised in collaboration with Jawatankuasa Pemulihan Dalam Komuniti ('PDK'), the event involved approximately 175 people in total, including children who attend the centre, family members, EnQuest staff and centre personnel.

Grampian Transport Museum Young Engineers Club

Grampian Transport Museum Young Engineers Club

EnQuest encourages and supports its employees to actively contribute to society, focusing particularly on local communities. In 2016, we made charitable donations in support of employees who took part in a wide variety of sporting and charitable events.

Malaysian staff visiting the Centre for the Disabled in Kemaman

Designed to raise awareness of the centre and promote support for the children, the itinerary included a series of fun activities. In line with our CSR principles, EnQuest made a tangible contribution to the centre by providing equipment for its sewing, cooking, physiotherapy and academic classes as well as donating goodie bags and t-shirts to the young people. The children delivered memorable individual and group performances for their guests at the end of the visit.

In 2017, our staff in Malaysia are planning a CSR project in support of a local orphanage.

Business conduct

EnQuest has recently revised and re-issued its Code of Conduct to its personnel. The EnQuest Code of Conduct sets out the behaviour which the organisation expects of its Directors, managers and employees, of our suppliers, contractors, agents and partners. We are committed to upholding the highest ethical standards, complying with all applicable legal requirements and to acting with complete integrity at all times. Our employees and everyone that we work with create and support our reputation and ensure our progress and success. This code addresses our requirements in a number of areas including the importance of health and safety and environmental protection, compliance with applicable law, anti-corruption, addressing conflicts of interest, ensuring equal opportunities, combatting bullying and harassment and the protection of privacy.

The Group's induction procedures cover the Code of Conduct and the Group runs both ad hoc and scheduled periodic training for personnel to refresh their familiarity with relevant aspects of the Code of Conduct or specific policies and procedures which support the Code (such as the Group's anti-corruption programme). As part of the Group's Risk Management Framework the Board is supplied annually with an 'assurance map' to provide the Board with an insight into the status of the main sources of controls and assurance in respect of the Group's risk areas.

Whilst this provides some formal assurance as to how Group reinforces its requirements in respect of business conduct, the Board also recognises the importance of promoting the right culture within the Group and this has become an area of increased focus for the Group. Please see page 40–47 for further information.

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

The Code has been refreshed and now includes a confirmation of EnQuest's commitments to adhere to applicable tax laws as well as the Group's stance against slavery and human trafficking. The Group has zero tolerance of such practices and expects the same of all with whom it has business dealings; for example, in relation to procurement, by requiring suppliers to confirm their commitment to anti-slavery before being qualified to supply the Group. The Group has supplemented its procedures to provide further assurance that it is able to identify and manage human rights risks in its supply chain and will be publishing a further slavery and human trafficking statement on its website.

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 www.enquest.com/corporate-responsibility. This is updated during the year.

Risks and uncertainties

Management of risks and uncertainties

The Board has articulated EnQuest's strategy to deliver value by targeting maturing assets and underdeveloped oil fields. EnQuest has prioritised its strategic focus to deliver on execution targets, streamline operations and strengthen its balance sheet. As EnQuest moves from a period of heavy investment to one focused on realising value from existing resources and capabilities, it will strictly maintain financial discipline and focus on driving cash flow.

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 consistent with the strategic objectives of enhancing net revenues and strengthening the balance sheet
- 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 financially disciplined and low cost, cash flow generating operator as the Group reduces its debt and appropriate market opportunities present themselves. In this regard the Board has commenced a process to develop certain specific principles to guide the Company during the current phase of its evolution which tie together the Company's thinking on strategy and risk. Broadly, these would reflect a focus by the Company on:

- Adding value to assets which are already in production and within geographical parameters
- Adhering to specific disciplines in capital allocation decisions and management of capital structure
- Management of portfolio concentration risks (see also page 47)
- Ensuring target setting for personnel aligns appropriately with the Company's strategy and risk appetite

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus.

The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of 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 2016 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.

Cognisant of the Group's financial restructuring (and consequent strategic focus on deleveraging and strengthening its balance sheet), the Board is satisfied that the Group's risk management system works effectively in assessing and managing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group.

Set out on the following pages are the principal risks and 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. Amongst these, the key risks the Group currently faces are a prolonged low oil price environment and/or a sustained decline in oil prices (see 'Oil Price' risk on page 45) and any material delay to achieving first oil and/or materially lower than expected production performance at the Kraken field (see 'Project execution' and 'Production' risks on pages 42 and 41 respectively).

Risk

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 (2015 Medium)
Likelihood – Low (2015 Low)

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

Appetite

The Group strives to provide a highly secure setting for its people and the natural environment and we endeavour constantly to 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.

Mitigation

The Group maintains, in conjunction with its core contractors, a comprehensive programme of HSE, asset integrity and assurance activities and has implemented a continual improvement programme, promoting a culture of transparency in relation to HSE matters. The Group has established a Corporate HSE Committee which meets quarterly. HSE performance is discussed at each Board meeting and during 2016, the Group completed a comprehensive UK HSE&A audit programme, with outcomes fed into our 2017 Continual Improvement Programme and, revisited and restated its Hydrocarbon Release Prevention Improvement Plan.

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

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.

When appropriate, EnQuest will extend the application of its HSE&A policies, activities and programmes to operatorship of the Magnus oil field, Sullom Voe Terminal (and associated pipelines); see page 27 for further details.

Risk

Production

The Group's production is critical to its success and is subject to a variety of risks including subsurface uncertainties, operating in a mature field environment 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, to a significant extent, dependent on the Sullom Voe Terminal.

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

Potential impact – High (2015 High)
Likelihood – Low (2015 Low)

There has been no material change in the potential impact or likelihood: while reliance on the Sullom Voe Terminal has decreased due to the Alma/Galia and Scolty/Crathes projects coming onstream, and will reduce further when Kraken comes onstream. Production at Alma/Galia has been below expectations to date.

Also, until the Kraken project is fully onstream, the possibility of production at the field being below expectations cannot be discounted.

Appetite

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).

Mitigation

The Group's programme of asset integrity and assurance activities provide leading indicators of significant potential issues which may result in unplanned shutdowns or which may in other respects have the potential to undermine asset availability and uptime. The Group continually assesses the condition of its assets and operates extensive maintenance and inspection 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 with losses being identified and remedial and improvement opportunities undertaken as required. A continual, rigorous cost focus is also maintained.

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

The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored and challenged by the Group and other terminal owners and users to ensure that operational integrity is maintained. Further, EnQuest expects to be well positioned to manage potential operational risks related to Sullom Voe Terminal once it steps into operatorship of the terminal. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide cost savings.

Risks and uncertainties continued

Risk

Project execution

The Group's success will be partly dependent upon bringing Kraken to production on budget and on schedule.

Potential impact – High (2015 High)
Likelihood – Low (2015 Low)

The potential impact has been partially offset by the Alma/Galia and Scolty/Crathes projects coming into production in 2015 and 2016 respectively. Further, although the Kraken project remains on time and on budget (the Kraken development FPSO is securely moored on station where commissioning work continues); until first oil is achieved, the potential impact remains high.

Further, as the Group focuses on deleveraging its balance sheet, executing new large scale developments is not considered a strategic priority in the short term.

Appetite

The efficient delivery of new developments has been a key feature of the Group's long term strategy. Following the entry into production of the Alma/Galia and Scolty/Crathes projects, the Company recognises that until the Kraken development is in production, the Company continues to have considerable exposure to development risks associated with the project and that this exposure is now greater than had been anticipated before the industry oil price crisis of the past two years. 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.

Mitigation

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

The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production remains scheduled for Q2 2017. Prior to sanction, EnQuest identified and optimised the development plan using EnQuest's pre-investment assurance processes.

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. A total of seven production and six injection wells have now been safely drilled and completed, with results in line with pre-drill predictions.

Risk

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 (2015 High)
Likelihood – Medium (2015 Medium)

There has been no material change in the potential impact or likelihood as oil price volatility and a focus on strengthening the balance sheet continues to limit business development activity to the pursuit of reserves enhancing, selective, cash-accretive opportunities (such as the acquisition of an interest in the Magnus oil field – please see page 27).

Low oil prices can potentially affect development of contingent and prospective resources and can also affect reserve certifications.

Appetite

Reserves replacement is an 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.

Mitigation

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

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

Risk

Financial

Inability to fund financial commitments.

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

Potential impact – High (2015 High)
Likelihood – High (2015 Medium)

There has been no material change in the potential impact or likelihood: although the Group successfully completed a financial restructuring, it remains highly reliant on the successful completion of the Kraken development and production at Kraken being in line with expectations. Further information is contained in the going concern and viability paragraphs on pages 34 and 35 of the Financial review.

Appetite

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

Mitigation

During the year, the Group completed a financial restructuring involving:

(i) Amendments to its:

- revolving credit facility (including, inter alia, an extension of the maturity date/ amendment of the amortisation schedule and relaxation of financial covenants);
- retail bond (including, inter alia, making cash interest payments contingent on certain conditions (including relating to the oil price) being met, an extension of the maturity date and a removal of financial covenants); and
- high yield bond (including, inter alia, making cash interest payments contingent on certain conditions (including relating to the oil price) being met and an extension of the maturity date).

(ii) A placing and open offer was successfully completed with gross aggregate proceeds of £82 million.

These steps together are expected to provide the Group with a stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity so as to strengthen its balance sheet for longer term growth.

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

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

The Group is continuing to maintain a focus on controlling and reducing 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. Further, production at Scolty/Crathes and completion of the Kraken development should lead to increases in production and decreases in average unit operating costs across the Group.

Risks and uncertainties continued

Risk

Human resources

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

Potential impact – Low (2015 Low)
Likelihood – Medium (2015 Medium)

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

Appetite

As a low cost, lean organisation, the Group relies on motivated and high quality employees to achieve its targets and manage its risks. The Group recognises that the benefits of a lean and flexible organisation require agility to assure against the risk of skills shortages.

Mitigation

The Group has established a competent employee base to execute its principal activities. In addition to this, the Group seeks to maintain good relationships with its employees and contractor companies and regularly monitors the employment market to provide remuneration packages, bonus plans and long term share based incentive plans that incentivise performance and long term commitment from 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. The culture of the Group is an area of increased focus given the rapid growth of the Group and as it absorbs a significant number of personnel into the business with its acquisition of operating interests in the Magnus field and the Sullom Voe Terminal.

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. It is a Board-level priority that executive and senior management possess the appropriate mix of skills and experience to realise the Group's strategy; succession therefore remains a key priority.

Risk

Reputation

The reputational and commercial exposures to a major offshore incident are significant.

Potential impact – High (2015 High)
Likelihood – Low (2015 Low)

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

Appetite

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

Mitigation

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.

Risk

Oil price

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

Potential impact – High (2015 High)
Likelihood – High (2015 High)

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

Appetite

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

Mitigation

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

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 6 million bbls for 2017 at a price of approximately $51/bbl. 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 impact of changes in oil prices while remaining within the limits set by its term loan and revolving credit facility.

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

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

Risk

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 (2015 High)
Likelihood – Low (2015 Low)

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

While 'Brexit' appears unlikely to directly impact the Group materially, it has increased the possibility of a further Scottish independence referendum.

Appetite

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

Mitigation

It is difficult for the Group to predict the timing or severity of such changes. However, through Oil & Gas UK and other industry associations the Group 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.

Risks and uncertainties continued

Risk

Joint venture partners

Failure by joint venture parties to fund their obligations.

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

Potential impact – Medium (2015 Medium)
Likelihood – Medium (2015 Medium)

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

Appetite

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

Mitigation

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

The Group generally prefers to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets. During 2016, the Group acquired a 10.5% participating interest in Kraken for nominal consideration from First Oil, a partner which defaulted on its ongoing financial obligations to the project. Additionally, the Group acquired a further 15.15% interest in the West Don field, also from First Oil.

Risk

Competition

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

Potential impact – Medium (2015 Medium)
Likelihood – Medium (2015 Medium)

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

Appetite

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.

Mitigation

The Group 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

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 – High (2015 Medium)
Likelihood – Medium (2015 Medium)

The acquisition of an interest in the Magnus oil field and Sullom Voe Terminal (and associated pipelines) has elevated this risk in the long term (by further concentrating the Group's portfolio in the UK North Sea); further, although production from Alma/Galia and Kraken (where the Group now has an increased exposure due to the acquisition of an additional working interest of 10.5%) represent new production hubs for the Group, both projects further extend geographic concentration of the Group's production in the UK North Sea.

Appetite

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

Mitigation

This risk is mitigated in part through acquisitions. For all acquisitions, the Group uses a number of business development resources to evaluate and transact acquisitions in a commercially sensitive 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 and divesting, executing development projects, making international acquisitions and expanding hubs where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash flow and strengthening the balance sheet. The acquisition of the Greater Kittiwake Area in 2014 which produces via the Forties Pipeline System ('FPS') and the start-up of Alma/Galia which produces to shuttle tankers reduced the Group's prior concentration to the Brent Pipeline System ('BPS') and the Sullom Voe Terminal. Start-up of the Kraken field, which also exports via shuttle tankers, will reduce further any concentration risk in 2017. Although, on successful completion of the Group's planned acquisition of the Magnus field and Sullom Voe Terminal from BP, the Group will see a further concentration in SVT, as the Magnus field produces via the Ninian Pipeline System ('NPS') this will not concentrate risk further in BPS. It should also be noted that the Heather and Broom fields also produce via NPS. Although the Group has concentration risk at Sullom Voe Terminal, taking operatorship of the terminal will put the Group in a position of more direct control of such risk.

Risk

International business

While the majority of the Group's activities and assets are in the UK, the international business is still material. The Group's international business is subject to the same risks as the UK business (e.g. HSE, 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 (2015 Medium)
Likelihood – Low (2015 Low)

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

Appetite

In light of its long term growth strategy, the Group seeks to expand and diversify its production (geographically and in terms of quantum); as such, it is tolerant of assuming certain commercial risks which may accompany the opportunities it pursues. However, such tolerance does not impair the Group's commitment to comply with legislative and regulatory requirements in the jurisdictions in which it operates. Opportunities should enhance net revenues and facilitate strengthening of the balance sheet.

Mitigation

Prior to entering 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 while at all times ensuring that staff, contractors and advisers comply with EnQuest's business principles, including those on financial control, cost management, fraud and corruption.

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

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

Stefan Ricketts
Company Secretary

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 20 March 2017.

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enQuest

Board of Directors

Jock Lennox
Non-Executive Chairman

Appointed
8 September 2016 (member of the Board since 22 February 2010)

Committees
Nomination (Chairman)

Skills and experience
Jock Lennox holds a law degree and in 1980 qualified as a chartered accountant with Ernst & Young LLP. He is a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at Ernst & Young LLP. In his time at Ernst & Young LLP Jock gained a wide range of experience working with multi-national clients (including in the oil and gas sector), he worked on projects in many countries and had a secondment to Seattle, US in the early 1980s. He held a number of leadership positions in the UK and globally. Jock retired from Ernst & Young LLP in 2009.

Other principal external appointments
Non-Executive Director of Barratt Developments plc and Dixons Carphone plc. He is senior independent director of Hill & Smith Holdings plc and a trustee of the Tall Ships Youth Trust.

Amjad Bseisu
Chief Executive

Appointed
22 February 2010

Committees
Nomination

Skills and experience
Amjad Bseisu holds a BSc Honours degree in Mechanical Engineering from Duke University and an MSc and D.ENG degree in Aeronautical Engineering from Stanford University. 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
Chairman of the independent energy community for the World Economic Forum since 2016, British Business Ambassador for Energy from 2013 to 2015 and non-executive chairman of Enviromena Power Systems, a private company and the leading developer of solar services in the Middle East.

Jonathan Swinney
Chief Financial Officer

Appointed
29 March 2010

Committees
None

Skills and experience
Jonathan Swinney is a qualified chartered accountant and a member of the Institute of Chartered Accountants of England and Wales. He is also a qualified solicitor and focused on acquisition finance. Jonathan worked at Credit Suisse and then Lehman Brothers, advising on a wide range of transactions with equity advisory. 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. The combination of Jonathan's experience has been critical in raising finance during EnQuest's existence as well as having merger and acquisition transactional experience. Having both accounting and legal professional qualifications as well as significant capital markets knowledge, experience and understanding have all been key to the successful restructuring undertaken in 2016.

Other principal external appointments
None

Helmut Langanger
Senior Independent Director

Appointed
16 March 2010

Committees
Remuneration (Chairman), Audit and Nomination

Skills and experience
Helmut Langanger holds an MSc degree in Petroleum Engineering and an MA in Economics. Between 1974 and 2010, Helmut was employed by OMV, Austria where he was a reservoir engineer until 1980. From 1981 to 1985, Helmut was an evaluation engineer for the technical and economic assessment of international E&P ventures, and from 1985 to 1989 he held the position of vice-president, planning and economics for E&P and natural gas projects. In 1989 Helmut was appointed as senior vice-president of international E&P and in 1992 became senior vice-president of E&P for OMV's global operations. From 2002 Helmut was the group executive vice-president for E&P, OMV until he retired in 2010. During his tenure, 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).

Carl Hughes
Non-Executive Director

Appointed
1 January 2017

Committees
Audit (Chairman), Risk and Remuneration

Skills and experience
Carl Hughes holds an MA in Philosophy, Politics and Economics, is a Fellow of the Institute of Chartered Accountants in England and Wales, and is a Fellow of the Energy Institute. Carl joined Arthur Andersen in 1983, qualified as a chartered accountant and became a partner in 1993. Throughout his professional career he specialised in the oil and gas, mining and utilities sectors, becoming the head of the UK energy and resources industry practice of Andersen in 1999 and subsequently of Deloitte in 2002. When Carl retired from the partnership of Deloitte in 2015 he was a vice chairman, senior audit partner and leader of the firm's energy and resources business globally.

Other principal external appointments
Trustee and member of council of the Energy Institute; a member of the development board of St Peter's College, Oxford; a member of the General Synod of the Church of England and the finance committee of the Archbishops' Council; and vice chairman of the board of finance of the Diocese of Southwark.

Philip Holland
Non-Executive Director

Appointed
1 August 2015

Committees
Risk (Chairman) and Remuneration

Skills and experience
Phil Holland holds a BSc in Civil Engineering from Leeds University 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
Chief executive of Lloyds Energy Limited.

Dr Philip Nolan
Non-Executive Director

Appointed
1 August 2012

Committees
Audit, Remuneration and Risk

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. He was responsible for acquisition and disposals for BP Exploration worldwide and was managing director of Interconnector (UK) Limited which built and continues to operate the gas pipeline between Bacton and Zeebrugge. He joined BG Group plc ('BG Group') where he was chief executive of Transco, which runs the UK gas pipeline network, and sat as an executive member of the board of directors of BG plc. On demerger from BG Group, Phil was the chief executive of the Lattice Group, a FTSE 100 company. Subsequently, Phil became the chief executive of eircom, the national Irish telecoms company. He was also a non-Executive Director of Providence Resources P.l.c., an Irish oil explorer.

Other principal external appointments
Chairman of 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 Ulster Bank and Affinity Water Limited.

Senior management

Neil McCulloch
Chief Operating Officer

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 to 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 & Gas UK and a board member of the Oil & Gas Innovation Centre.

In December 2016, EnQuest announced that Neil was being invited to join the EnQuest Board at the 2017 AGM.

Faysal Hamza
Managing Director – Corporate Development

Faysal has an MBA from Georgetown University in Washington and over 27 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 ten 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.

Bob Davenport
General Manager, Malaysia

Bob graduated from the University of Alabama with a BS in Mineral Engineering and earned an MBA from Florida International University. He began his early career in 1984 as a field engineer with Schlumberger, then gained broad international experience in petroleum engineering, project management, subsurface, operations and general management with Texaco, Shell, BP and Apache Corporation. In previous roles he has worked in Indonesia, Egypt, Pakistan, Kuwait, the United Arab Emirates, UK North Sea and USA Gulf Coast. Prior to joining EnQuest, Bob served as North Sea operations director for Apache and general manager, Khalda where he led the largest oil and gas producer in Egypt's western desert. Bob joined EnQuest in 2015 and is responsible for delivering the ambitious growth agenda in Malaysia.

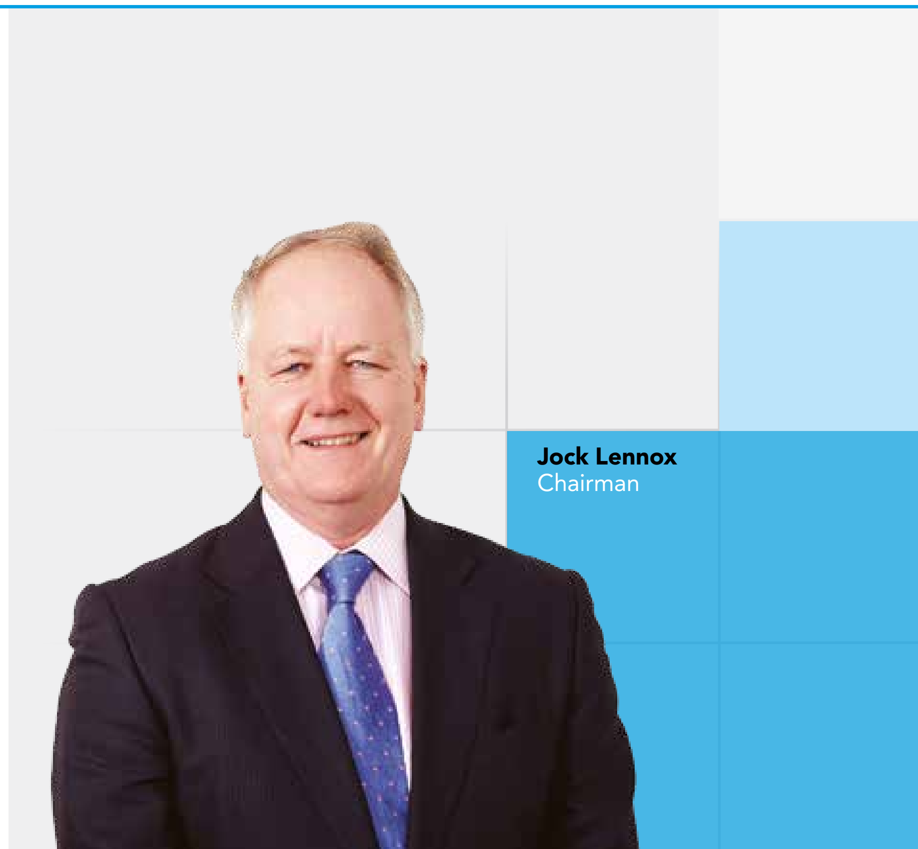
Imran Malik
Vice President – Finance

Imran Malik holds a degree in Chemical Engineering from University College London, qualified as a chartered accountant with KPMG in 1991 and is a member of the Institute of Chartered Accountants of England and Wales. He has over 25 years of broad international oil and gas experience in group and operational finance, project services, contracts and procurement and general management across the value chain from Upstream to LNG. He joined EnQuest in 2015 from BG Group, where as part of the finance leadership team his most recent role was as group head of planning and risk. In previous roles he has worked in Australia, Egypt, the Netherlands, Libya and Pakistan. As Vice President of Finance at EnQuest, Imran has overall responsibility for ensuring that the Company has the necessary finance capacity and capabilities in place to deliver EnQuest's strategy.

Salman Malik
Vice President – Corporate Finance and M&A

Salman graduated from the University of Toronto with a degree in Finance and Economics with high distinction. Salman is also a CFA charterholder with extensive experience in investment management, investment banking and private equity in Canada and the Middle East. Prior to joining EnQuest in 2013, Salman was a director of private equity and principal investments at Swicorp, a financial firm operating in the Middle East and North Africa, where he served on the board of several portfolio companies and was responsible for acquisitions, post-acquisition management and exits across the energy value chain. Prior to that, Salman held several sell side positions in the investment banking industry in Canada, primarily focused on the industrial and metals and mining sectors. In his current role, as Vice President of Corporate Finance and M&A, Salman is responsible for the Group's strategy, corporate finance activities, and transaction structuring and execution, including acquisitions and divestitures.

Chairman's letter



Jock Lennox
Chairman

"A significant focus of the Board during the latter part of 2016 has been the financial restructuring of the Company."

Dear Shareholder

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's Corporate Governance Report.

I would like to thank my predecessor Dr Jim Buckee, who retired as Chairman of the Company in September 2016, for leading the Company from its inception in 2010 with great energy and passion. His contributions are appreciated by EnQuest staff and the Board alike.

A significant focus of the Board during the latter part of 2016 has been the financial restructuring of the Company, as described on page 10, and I would like to thank the Board members, management and staff for their dedication during this challenging period. This process required considerable time and focus from the Board, who attended numerous ad hoc calls and meetings as the project was developed. Throughout the process the Board, together with the Company's advisers, paid great attention to the protection of the interests of our stakeholders, including ensuring that the related party transaction aspects of the restructuring (as described in more detail on page 134) were fully addressed and approved by the shareholders at the Company's Extraordinary General Meeting ('EGM') on 14 November 2016.

Corporate governance

The Board believes that the manner in which it conducts its business is important and it is committed to delivering the highest standards of corporate governance for the benefit of all of its stakeholders. Ensuring that the Board works effectively remains a key focus of the Company. EnQuest's Company values underpin a working environment where people are safe, creative and passionate, with a relentless focus on results.

The following pages provide information on the operation of the Board and its Committees. A summary of their work is found on page 58 and the individual reports are on pages 60–65 (Audit), pages 66–81 (Remuneration), and pages 82–84 (Nomination).

2016 saw the inception of a new Committee of the Board, the Risk Committee. The primary purpose of the Risk Committee is to provide a forum for in-depth examination of non-financial risk areas (financial risk being within the scope of the Audit Committee). Over the course of the year the Committee has reviewed a number of areas such as asset integrity, subsurface risks and morale. The work of the Risk Committee is further discussed on page 59.

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.

Board composition and succession planning

When Dr Buckee retired from the Board last year I became Chairman (following a succession process led by Helmut Langanger as Senior Independent Director) and Philip Nolan stepped in to become Chairman of the Audit Committee pending the appointment of a new Non-Executive Director to become the Audit Committee Chairman on a permanent basis. In January 2017, after a rigorous search process, EnQuest was delighted to welcome Carl Hughes to the Board as a Non-Executive Director and Chairman of the Audit Committee. Carl brings a wealth of experience to the Company, as a former vice chairman and senior audit partner at Deloitte with particular experience in the energy sector. Neil McCulloch, formerly President, North Sea at EnQuest, was appointed Chief Operating Officer from January 2017 and, subject to shareholder approval, has been invited to join the Board at the Annual General Meeting ('AGM') on 25 May 2017.

EnQuest governance and management map

As part of a planned rotation of the Board, Clare Spottiswoode stepped down as a Non-Executive Director during 2016 and I would like to thank her for her valuable contribution. In conjunction with an external search firm, the process of building on our rotation plans continues.

The Board regularly considers how it operates and whether there is an appropriate composition and mix around the Board table. Rotation of, and succession for, the Directors is kept under review by the Nomination Committee, which is also reviewing the succession planning processes in place in relation to senior executives.

Board evaluation

The Board held an internal evaluation in 2016, following an externally facilitated review in 2015. The Board identified a number of areas for consideration and these are summarised on page 58. In addition, the Senior Independent Director conducted a review of my performance since I became Chairman of the Company and this is also found on page 58.

Corporate responsibility

The Company's corporate responsibility is focused on five main areas. These are, first and foremost, Health and Safety, People, Environment, Business Conduct and Community. The Board has approved the Company's overall approach to corporate responsibility and specific developments and updates in each are brought to the Board's attention when appropriate.

The Board receives regular information on the performance of the Company in these areas, and specifically monitors health and safety and environmental reporting at each Board meeting. The Company's HSE&A Policy is reviewed by the Board annually and all incidents, forward looking indicators and significant HSE&A programmes are discussed by the Board. We report on these areas specifically on page 36.

Culture

This is an area of increased focus given the stresses occasioned by the oil price crisis and rapid growth as both Alma/Galia and Kraken projects add scale to EnQuest's business. Furthermore, the Company is now working to complete its acquisition of operating interests in the Magnus field and the Sullom Voe Terminal, transitioning to take over operatorship and absorbing significant additional numbers of personnel into the business. It is therefore important to foster among the workforce high morale, common values and a focus on efficient and ethical achievement. Over the past year the Board and its Committees have reviewed progress in implementing cultural engagement in a number of areas such as safety practices, anti-bribery and risk management. An exercise to seek feedback on morale was undertaken and a number of measures are being implemented in response to this. The Board have also recently approved the updated Company Code of Conduct which sets out the behaviours that all staff are expected to follow. Furthermore, the Company took considerable care to ensure the processes adopted during a rationalisation of the workforce in Aberdeen were, and were seen to be, fair and understanding.

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 2016. The focus of the day was to address the adjustment of the Company as it focuses on consolidating rapid and ongoing growth, and on cash generation and debt repayment. The key output of the day was the initiative to develop a number of tenets to guide the Company's strategic direction while also enhancing granularity in relation to the Company's risk appetite. Please see page 40 for further details.

It is therefore intended that, in 2017, we will continue to build on our governance processes and strategic priorities as the information contained on the following pages demonstrates.

Jock Lennox
Chairman

Corporate Governance Statement

Statement of compliance

The Financial Reporting Council ('FRC') published a revised UK Corporate Governance Code (the 'Code') in April 2016, which was effective for accounting periods beginning on or after 17 June 2016. The Company has adopted the Code early and is pleased to report that all principles have been complied with in the period under review. As a premium listed company, EnQuest is committed to complying with 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 2016	Details
Appointment of Chairman	Jock Lennox was appointed on 8 September 2016, succeeding Dr Buckee, see page 84 for details
Appointment of Non-Executive Director	Following Clare Spottiswoode's departure, Carl Hughes was appointed on 1 January 2017, see page 83 for details
Risk Committee	Risk Committee process embedded, see page 59 for details
Company restructuring	The completion of the financial restructuring of the Company took place on 21 November 2016, see page 10 for details

Leadership

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

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 Board is responsible for:

- the Group's overall strategy;
- review of 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 and Risk Committees); and
- succession planning and appointments (supported by the Nomination Committee).

The Board held six scheduled Board meetings in the year ended 31 December 2016, five of which were held at the Company's registered office in London and one was held offsite in conjunction with the strategy day in October. In addition, the Board held a number of further Board meetings throughout the year, largely as a result of the financial restructuring. In total there were an additional 24 Board meetings which were largely fully attended. All Directors are expected to attend scheduled Board and relevant Committee meetings and the Company's AGM. Details of Board and Committee membership and attendance at scheduled meetings can be found on page 57.

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 the 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 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 considers that all the Non-Executive Directors continue to remain independent and free from any relationship that could affect or appear to affect their independent judgement. Information on the skills and experience of the Non-Executive Directors can be found in the Board biographies on pages 50–51.

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 conducted the process for the appointment for the Chairman (see page 84 for more detail) and runs the annual review of the performance of the Chairman. He 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 Board procedures and 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.

Effectiveness

Board composition and changes

There were a number of changes to the composition of the Board over the year and the Nomination Committee, as one of its duties, regularly reviews the structure, size and composition of the Board. At the date of this Report there are seven Directors, consisting of two Executive Directors and five Non-Executive Directors (including the Chairman). As explained in the Chairman's statement, Clare Spottiswoode stepped down from the Board at the 2016 AGM and Dr Buckee stepped down in September 2016. On 1 January 2017 Carl Hughes was appointed as a Non-Executive Director and it is proposed that Neil McCulloch, Chief Operating Officer, be appointed as an Executive Director on 25 May 2017 at the 2017 AGM. More detail on Board biographies is set out on pages 50–51, while Board composition is found on page 55. The work of the Nomination Committee, which includes the Board's activities relating to diversity, is found on page 83.

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 2016:

	Board meetings	Audit Committee	Remuneration Committee	Risk Committee	Nomination Committee
Meetings held in 2016	6	3	3	2	2
Executive Directors					
Amjad Bseisu	6	n/a	n/a	n/a	2
Jonathan Swinney	6	n/a	n/a	n/a	n/a
Non-Executive Directors					
James Buckee[1]	4/4	n/a	n/a	n/a	1/1
Clare Spottiswoode[2]	2/3	1/1	1/1	1/1	n/a
Helmut Langanger[3]	6	1	3	n/a	2
Jock Lennox[4]	6	3	3	2	1
Philip Holland[5]	5	n/a	1	2	n/a
Philip Nolan[6]	6	3	3	1	n/a

Notes:
n/a not applicable where a Director is not a member of the Committee.
1 Dr Buckee retired as Chairman of the Company on 8 September 2016. The number of meetings eligible to attend and number attended are shown.
2 Clare Spottiswoode stepped down as a Director on 1 June 2016. The number of meetings eligible to attend and number attended are shown.
3 Helmut Langanger became a member of the Audit Committee on 12 October 2016 and was therefore only eligible to attend one meeting.
4 Jock Lennox became Chairman of the Nomination Committee on 8 September 2016 and was therefore only eligible to attend one meeting.
5 Philip Holland was unable to attend the Board meeting on 26 January 2016 due to personal circumstances. Philip became a member of the Remuneration Committee on 12 October 2016 and was therefore only eligible to attend one meeting.
6 Philip Nolan became a member of the Risk Committee on 8 September 2016 and was therefore only eligible to attend one meeting.

Board activities during the year

How the Board operates

During 2016 the Board held six scheduled meetings and a number of ad hoc meetings were arranged to deal with matters arising between scheduled meetings, in particular in relation to the financial restructuring of the Company. Scheduled Board meetings are preceded by a day of Committee meetings and a technical review which allows for a deep dive on a particular topic of interest, such as well performance, project updates and drilling. This pattern of meetings is intended to support the Board's focus on 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 members also receive a monthly report on performance, irrespective of a meeting taking place, which allows them to monitor performance regularly; monthly updates on major projects are also provided.

Board agenda and key activities throughout 2016

The table below 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	Key activities for the Board throughout 2016
• HSE&A matters • Key project status and progress • Responses to oil price declines • Strategy • Key transactions • Financial reports and statements • Production • Operational issues and highlights • HR issues and developments • Key legal updates • Assurance and risk management • Investor relations and capital markets update	• Review of liquidity options • Compliance with debt covenants and liquidity • Financial restructuring • Risk, going concern and long term viability review • Annual offsite strategy day held in October • Evolution of Risk Management Framework • 2016 budget review and 2017 budget approval • Periodic updates on corporate regulatory changes and reporting requirements • Hedging strategy and policy • Annual anti-corruption review • Implementation of Risk Committee • Matters pertaining to the Kraken and Scolty/Crathes projects

Corporate Governance Statement continued

Board Committees
The Board delegates a number of responsibilities to its Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee. Membership for each Committee is found on page 55. 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 set out the scope of authority of the Committee, satisfy the requirements of the Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference are available on the Company's website 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, and minutes of all Committee meetings are available to all Directors.

In addition to the four Board Committees, EnQuest has several non-Board Committees, which assist the Chief Executive in the development, implementation and monitoring of strategy. These include the Executive Committee, Operations Committee, Investment Committee and a quarterly HSE&A Review.

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. This was reviewed by the Board in March this year and updated.

Board performance evaluation
Each year the Board is required to carry out an evaluation of its own effectiveness as required by the Code. Following the externally facilitated review of the Board and Committees in 2015, the review in 2016 was carried out internally. The Chairman met with each Director individually and Directors were also asked to complete a questionnaire.

Key areas of consideration were:
- strategy;
- internal control, risk management and governance;
- administration, support and development;
- membership and proceedings; and
- interaction with shareholders and stakeholders.

The results of the evaluation were discussed at the January 2017 Board meeting and it was concluded that the Board and Committees were well constituted and had demonstrated good performance during a challenging year. A number of topics were debated which have now been worked into the Board agenda for 2017. The most significant of these are:
- continue the succession planning for the Board and extend to senior management;
- review strategy in light of the financial restructuring;
- evolve the process for production forecasting; and
- develop further the risk appetite and shape into strategic tenets.

The Board appreciates the extent of access to senior management and the technical review process that operates the day before the Board meetings.

The Non-Executive Directors, led by the Senior Independent Director, also carried out a performance evaluation of the Chairman and concluded that during his first few months as Chairman he had performed well, with a balanced view on all issues of importance and ensured that there was constructive rapport between the Executive Directors and the Board members.

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. Visits to the Aberdeen and overseas offices are also arranged as appropriate.

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 which in 2016 included training on the Market Abuse Regulations which were introduced in July 2016. Board meetings are also preceded by informal Board dinners which provide the Board an opportunity to discuss a broad range of issues relevant to the Group amongst themselves and with senior management. 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 Company has established procedures in place through the Articles of Association and the Company's Code of Conduct which 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 is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently and considers the issue of conflicts at the start of every Board meeting. In addition, the Directors are required to obtain the approval of the Chairman before accepting any further appointments.

Anti-bribery and corruption
The Company is committed to behaving fairly and ethically in all of its endeavours and has policies which cover anti-bribery and corruption. The overall anti-bribery and corruption programme is reviewed annually by the Board and a corruption risk awareness email is sent out annually by the Chief Executive reminding staff of their obligations and also to prompt them to complete an obligatory online anti-corruption training course.

The Company also encourages staff to escalate any concerns and, to facilitate this, provides an external 'speak-up' reporting line which is available to all staff in the UK, Malaysia and the UAE. Where concerns are raised, these are investigated by the Company's General Counsel and reported to the Audit Committee.

Risk
EnQuest has continued throughout the year to implement and develop its comprehensive Risk Management Framework, and has conducted a robust assessment of the principal risks facing the Group; see pages 40–47 of the Strategic Report for further information.

The Company established an additional Committee of the Board, the Risk Committee, in January 2016 and its primary responsibility is to act as a forum for engaging in thorough analysis of particular material risk areas that the Board believes merits analysis and discussion in greater depth than is ordinarily practicable within the agendas of full Board meetings. For example, during 2016 the Risk Committee looked at asset integrity and subsurface risks, the processes which the Company has in place to manage such risks and how these may be improved.

The Audit Committee 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 capability in the context of the Company's overall risk management system.

Remuneration

The work of the Remuneration Committee, which is currently comprised of four Non-Executive Directors, is set out in the Annual Report on pages 66–81.

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. As normal, in 2016 the Chairman and the Company's Senior Independent Director offered to engage with institutional investors on corporate governance or indeed any other matters and a number of such meetings were held early in the year. The Board was then updated on the outcome of those meetings as they are routinely updated on investor feedback by the Company's investor relations team, which keeps the Board informed of broker and analysts' views, and presents a paper at each Board meeting. Following his appointment in September 2016, EnQuest's new Chairman contacted institutional shareholders to introduce himself in his new role; a number of related calls and meetings subsequently took place. Engagement with investors was particularly active during the successful financial restructuring process.

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.

Across 2016 numerous investor and broker sales team and analyst meetings were held, including presentations at investor conferences and results. Results meetings are followed up by investor roadshows with existing and potential new investors. Executive Directors and other members of management routinely hold meetings in London, Edinburgh and Stockholm, where EnQuest's investor base is concentrated, and from time to time in other financial centres, including North America. Meetings are also held at EnQuest's offices in London and Aberdeen and site visits take place at a range of EnQuest locations. Investor meetings are organised directly by the Company, via brokers and in response to incoming investor requests; they take place throughout the year, other than during close periods.

As part of the process of updating its remuneration policy every three years and ahead of the 2017 AGM, around the end of 2016, EnQuest offered to make available meetings with the Chairman of the Remuneration Committee for discussion of its new remuneration policy proposals and again on any governance or other matters; some such meetings took place in early 2017.

2016 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. It provides the Board with an important opportunity to meet with shareholders. All of the Directors are expected to attend and will be available to answer questions from shareholders attending the meeting.

Audit Committee Report

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

Dear Shareholder
It is a great privilege to have been invited to join your Company's Board and to chair the Audit Committee, with effect from 1 January 2017. I am very aware of the financial and audit challenges and risks which the marketplace, the industry and our operations present for the Company. This report explains the way in which the Committee addressed these challenges and risks during 2016 under the chairmanships of Jock Lennox and Philip Nolan, and also looks ahead to those matters which I expect that the Committee will need to consider in the forthcoming year.

As explained further on the Company's website www.enquest.com under About us – corporate governance, the Audit Committee's core responsibilities are to:

- review the content and integrity of the annual and interim financial statements and advise the Board on whether they are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy;
- review the appropriateness of the significant accounting policies, judgements and estimates;
- monitor and review the effectiveness of the internal control and risk management systems;
- monitor and review the effectiveness of the internal audit function;
- oversee the relationship with the external auditor; and
- monitor and review the process of the assessment of the Group's proven and probable reserves by a recognised Competent Person.

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

The Committee's work in 2016 was focused on the implications of the challenging economic and oil price environment for the oil and gas industry for the Group and its financial condition and the impact thereon of the successful debt restructuring and equity raise completed in November 2016. We have taken this into account in our review of the going concern assumption and our viability assessment. Additionally, through internal audit, we reviewed the financial control environment of the Group, to ensure that appropriate controls are in place and operating effectively.

The continued relative weakness of the oil price means that we are maintaining our attention on ensuring that certain key judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, are carefully assessed. Details of these judgements and estimates, and how we satisfied ourselves as to their appropriateness, are set out in detail on the following pages, together with further information on how the Committee discharged its responsibilities during the year.

With oil price uncertainty expected to continue during 2017, we will remain focused on continuing to monitor closely the Group's financial position, liquidity and covenant compliance, as well as overseeing the execution of our risk-based internal audit plan. I anticipate that time will also be committed to considering the accounting implications of Kraken moving from being a development to a producing asset, and the implications for the development of the Group's internal control and risk management systems, and our approach to internal audit, in the context of the Group's continued growth as a major North Sea operator.

Carl Hughes
Chairman of the Audit Committee
20 March 2017

Committee composition

As required by the UK Corporate Governance Code (the 'Code'), the Committee is exclusively comprised of Non-Executive Directors, biographies of whom are set out on pages 50 and 51. The Board is satisfied that the incoming Chairman of the Committee, previously an energy and resources audit partner of Deloitte, a Big Four professional services firm, and a Fellow of the Institute of Chartered Accountants in England and Wales, meets the requirement for recent and relevant financial experience.

Membership of the Committee and attendance at the three meetings held during 2016 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox (Committee Chairman)[1]	22 February 2010	3/3
Carl Hughes (Committee Chairman)	1 January 2017	n/a
Helmut Langanger	16 March 2010	3/3
Philip Nolan[2]	1 August 2012	3/3

Notes:
1 Jock Lennox stepped down as Chairman of the Committee on 8 September 2016 when he was appointed Chairman of the Company. He remained a member of the Committee until Carl Hughes joined on 1 January 2017.
2 Philip Nolan acted as interim Chairman of the Committee from 8 September 2016 to 31 December 2016.

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer, the external auditors Ernst & Young ('EY') 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. PricewaterhouseCoopers ('PwC'), in their role as internal auditors during 2016, attended the meetings as appropriate. The Chairman of the Committee regularly meets with the external audit partner (this included focus on going concern and longer term viability) and the internal audit partner to discuss matters relevant to the Company.

An internal Board effectiveness evaluation was conducted during 2016, and further details on this are outlined in the Corporate Governance Report (refer to page 58).

Meetings during 2016

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	Sept 2016	Dec 2016	March 2017
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 2017		√	
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 the viability assessment		√	√
Appropriateness of going concern assumption	√	√	√
Corporate governance update	√	√	√
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity			√
Review of Group risk report		√	

Fair, balanced and understandable

A key requirement of our Annual Report and Accounts is for the report to be fair, balanced and understandable. The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet this requirement, as appropriate weight has been given to both positive and negative developments in the year.

In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts including:

- clear guidance and instruction are provided to all contributors;
- revisions to regulatory requirements, including the Code, are communicated and monitored;
- a thorough process of review, evaluation and verification of the content of the Annual Report is undertaken to ensure accuracy and consistency;
- external advisers, including the external auditors, provide advice to management and the Audit Committee on best practice with regard to creation of the Annual Report and Accounts; and
- a meeting of the Audit Committee was held in March 2017 to review and approve the draft 2016 Annual Report and Accounts in advance of the final sign-off by the Board.

Audit Committee Report continued

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 2016 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 $55/bbl (2017), $60/bbl (2018), $65/bbl (2019) and $70/bbl (Q1 2020); • opex and capex forecasts based on the approved 2017 budget and plan; and • other funding activities including certain asset portfolio activities.	The Board regularly reviews the liquidity projections of the Group. 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 34–35) 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 2016 of 215 MMboe. The estimation of these reserves is essential to: • the value of the Company; • assessment of going concern; • impairment testing; • decommissioning liability estimates; and • calculation of depreciation.	At 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.
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 2016, a total of $3.0 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 primarily to the recovery in the oil price compared to the same time last year, impairment testing has been performed resulting in a net impairment reversal of $0.1 billion of tangible oil and gas assets. Included within this number are further impairments of $0.2 billion and impairment reversals of $0.3 billion. These impairment tests are underpinned by assumptions regarding: • 2P reserves (as reported on by Gaffney Cline); • oil price assumptions (forward curve until 2020 and $70 real thereafter); • life of field opex and capex; and • a discount rate driven by EnQuest's weighted average cost of capital.	Management presented to the Committee, in the March meeting, the key assumptions made in respect of impairment testing, and the result thereof. The Committee considered and challenged these assumptions. Consideration was also given to EY's view of the work performed by management.

Significant financial statement reporting issue	Consideration
Adequacy of the decommissioning provision The Group's decommissioning provision of $0.5 billion at 31 December 2016 is based on a discounted estimate of the future costs and timing of decommissioning the Group's oil and gas assets. Judgement exists in respect of the estimation of the costs involved, the discount rate assumed, and the timing of decommissioning activities. During 2016 the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning each of our operated fields and excluding Kraken. These estimates were reviewed by operations personnel and adjustments were made where necessary to reflect management's view of the estimates. The estimates in respect of decommissioning the Group's well stock was determined internally by appropriately qualified personnel. The estimate for PM8 was internally developed, and then reviewed for reasonableness by a third party. For Alba, our non-operated asset, the provision is based on estimates provided by the operator, adjusted as necessary by our own operations personnel, to ensure consistency in key assumptions with our other North Sea assets. For Kraken, the estimates have been extrapolated from the estimates for other comparable assets within the Group's portfolio.	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 estimates made.
Tax At 31 December 2016 the Group carried deferred tax balances comprising $1.3 billion of tax assets (primarily related to tax losses) and $1.1 billion of tax liabilities. The recoverability of the tax losses has been assessed by reference to the tax projections derived from the Group's impairment testing. Due to the improvements in the underlying profitability of most of the Group's assets, ring fence losses totalling $214 million ($86 million tax-effected) were written back following this assessment. Mainstream (outside ring fence) tax losses totalling $216 million ($37 million tax-effected) were derecognised due to uncertainty of recovery. Given the complexity of 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. We evaluated the transparency of the Group's tax exposures, reviewing the adequacy and appropriateness of tax disclosures presented by management. Regard was also given to the observations made by EY as to the appropriateness of the disclosures made.

Audit Committee Report continued

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 40 provides more detail on how the Board, and its Risk Committee, have discharged its responsibility in this regard.

Responsibility in respect of internal control is delegated to the Audit Committee. Key features of the Group's internal control framework, the effectiveness of which is reviewed continually throughout the year, include:
- clear delegations of authority to the Board and its sub-committees, and to each level of management;
- setting of HSE&A, operational and financial targets and budgets which are subsequently 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 effectiveness of management controls and actions which address and mitigate the most significant risks;
- an annual risk-based internal audit programme developed in conjunction with management. Findings are communicated to the Audit Committee and follow up reviews are conducted where necessary; and
- further objective feedback provided by the external auditors and other external specialists.

Obtaining assurance on the internal control environment
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.

The Group's system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels defined by the Board. Regular management reporting, which provides a balanced assessment of key risks and controls, is an important component of assurance.

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 2016 internal audit undertook various projects, including reviews of:
- the design and operating effectiveness of a selection of the key financial controls within the Group;
- the Group's purchase to pay processes and controls; and
- follow up reviews of the previous year's reviews of:
  - controls in the trading and marketing function
  - inventory management.

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

After considering the priorities in 2017, we have directed internal audit to focus on, among other areas, readiness for Kraken operations, compliance with the Group's renegotiated revolving credit facility, cyber security, and an ongoing rotational review of the financial control framework.

External audit
One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of EY, which has been the Group's external auditor since 2010. Each year the Committee ensures that the scope of the auditors' work is sufficient and that the auditors are remunerated fairly. The process for reviewing EY's performance involves interviewing, each year, key members of the Group who are involved in the audit process to obtain feedback on the quality, efficiency and effectiveness of EY's audit services. Additionally, the Committee members take into account their own view of EY's performance when determining whether or not to recommend their reappointment.

The effectiveness of EY was formally evaluated during the Committee's meeting in August, and it was concluded that the Committee continues to be satisfied with EY's performance and the firm's objectivity and independence.

In its evaluation of EY, the Committee also considered the level of non-audit services provided by the firm during the year, the compliance with our policy in respect of the provision of non-audit services by the external auditor, and the safeguards in place to ensure EY's continued independence and objectivity. In recommending the reappointment of EY for 2017, the Committee recognised the non-recurring increase in the absolute size of non-audit fees (from $50,000 in 2015 to $370,000 in 2016). This increase was attributable to the work required of EY for the Group's equity raise prospectus, including their working capital review, and reporting accountant's services. These services are typically provided by a company's auditors, and the Committee concluded that shareholder value was best served by appointing our auditors for this work. The ratio of non-audit fees to audit fees over the last three years is 52%, which remains below the 70% cap outlined in the Company's policy in respect of non-audit services provided by the auditors.

In respect of audit tendering and rotation, the Committee has adopted a policy which complies with the EU Audit Regulation and Competition and Markets Authority 'The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities)' Order 2014. This policy requires an annual assessment of whether an audit 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 our annual evaluation of EY, a decision was taken not to tender the 2017 audit. While no tender is required until 2020, the Committee will continue to evaluate the appropriate time to conduct a tender.

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 Company's policy on non-audit services now reflects the EU Regulations which were introduced during June 2016. As a consequence of this the Committee took the decision to discontinue using EY for tax services, other than in exceptional circumstances.

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 have reconfirmed 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, our whistleblowing procedure, titled the 'Speak Up' reporting line, has continued to be in place across the Group. This allows employees and contractors to raise any concerns about business practices in confidence 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 58 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

"EnQuest needs a longer term remuneration approach appropriate for a maturing business that continues to retain and attract high calibre people critical to delivery against challenging operational and financial targets."

Dear Fellow 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 2016.

This year our report has three main sections:

1. My annual statement as Chairman of the EnQuest Remuneration Committee.
2. The policy report which sets out EnQuest's policy for the remuneration of our Executive Directors. The policy report will be subject to a binding shareholder vote at the 2017 Annual General Meeting ('AGM') and, if approved, takes effect from 25 May 2017.
3. The annual remuneration report of the Executive Directors and Non-Executive Directors during 2016. This will be subject to an advisory shareholder vote at the 2017 AGM. This section also includes the governance and implementation of executive remuneration at EnQuest, and key details of the implementation of our new policy in 2017.

Our approach to remuneration

In 2016 EnQuest announced the successful completion of a financial restructuring that was designed to deliver a strengthened balance sheet, maintain our commercial viability and preserve long term shareholder value. We were only able to deliver this by having excellent Executive Directors, tirelessly assisted by a strong team behind them, who worked closely with supportive and understanding shareholders and investors.

When seen with our continued cost reduction success and a simultaneous increase in production of 8.7%, 2016 was our positive response to an oil price that remains substantially less than it was when we first asked shareholders to approve our 2014 remuneration policy. A number of our competitors have not survived this challenging period, as our TSR competitor list confirms.

While 2016 was a key year, 2017 will be as well, but for different reasons. Our 2017 operational priority is to bring Kraken to first oil in Q2, while maintaining sensible downward operating cost pressures in line with our model of high efficiency. We aim to continue our long term record of year on year production growth and therefore generate the cash we need to start reducing our debt and deleverage our balance sheet.

2017 is a good time for EnQuest to update its executive remuneration policy. We have therefore taken the opportunity to move away from a philosophy of lower salaries, higher bonuses and average Performance Share Plan ('PSP') awards that was suited for a younger business, driven by high capital investment and rapid reserves and production growth. EnQuest needs a longer term remuneration approach appropriate for a maturing business that continues to retain and attract high calibre people critical to delivery against challenging operational and financial targets.

Shareholder consultation and new 2017 policy

Our refinancing work in 2016 allowed many shareholders to fully appreciate the unique commercial circumstances surrounding EnQuest, and this facilitated a good and constructive remuneration policy consultation. We were able to get clear and early feedback on our proposals so that our 2017 policy now incorporates three key changes specifically suggested by our shareholders:

- The implementation of a lower than proposed Executive Director salary increase in 2017
- The rebalancing of the overall executive remuneration package – from short term bonuses towards longer term PSP awards – will now be phased in two rather than a single business year
- The introduction of significantly improved retrospective bonus disclosures for Executive Directors.

Executive remuneration – 2017 policy

Our new remuneration policy supports our evolution to a commercial model of delivering on execution, continuing to streamline costs and strengthening the balance sheet. We therefore intend to rebalance and shift overall executive remuneration from short to longer term compensation to support delivery against these priorities over time.

The full details of our new 2017 policy are set out in the later policy and report sections. However, while our overall remuneration structures and elements remain essentially unchanged, the main highlights I wish to draw to your attention are:

- Annual bonus levels will reduce from 100% (target) and 225% (maximum) for business year 2016, to 85% (target) and 175% (maximum) in our 2017 business year. This will be followed by a further and final reduction to 75% (target) and 125% (maximum) for 2018
- Our PSP share maximum will increase from the current 200% normal and 300% exceptional levels, to 250% and 350% in 2017
- For bonus awards paid in 2018, based on performance in our 2017 business year, our deferral policy will be updated so that the entire annual bonus award above 100% of salary is deferred into EnQuest shares for two years. This creates a cash award cap
- We are introducing a new 200% of salary shareholding requirement for Executive Directors, while noting that both of them comfortably meet this requirement already
- Our malus and clawback terms in our policy and share plan rules will be updated to be appropriate for our market, and will be presented to shareholders for approval at our May 2017 AGM
- Debt is an important issue for both EnQuest and our shareholders. Following supportive shareholder feedback we have decided to proceed with adding a debt metric to our 2017 annual bonus plan, and we will also update our remuneration policy for PSP shares so that future PSP awards can include debt as a metric if and when required.

Performance and remuneration outcomes for 2016

2016 was not just a year of financial restructuring, but one where EnQuest continued to deliver. Another year of increased production – to 39,751 Boepd – was combined with excellent opex and opex per barrel results, which continue to support our low cost operating model. We also continued our progress delivering Kraken, laying a good foundation for first oil in Q2 2017.

2016 annual bonus – payable in 2017

The Executive Directors' annual bonus awards are based on a combination of financial and operational results and the achievement of key objectives. Awards of 74% of base salary (33% of maximum) for Amjad Bseisu, and 104% of salary (46% of maximum) for Jonathan Swinney have been made in respect of 2016. The Committee feels that these levels of awards are appropriate in light of the financial restructuring and continued cost containment. Full details of how these awards were determined are included in the report.

2014 Performance Share Plan ('PSP') vesting

The 2014 PSP award, which had a three year performance period ending 31 December 2016, vested at 56.1% of the original award. While our production performance condition was completely met and our reserves condition was partially met, our TSR condition was missed. Full details of the satisfaction of these three performance conditions are included in the report.

Executive Director remuneration in 2017

2017 base salaries

The salaries of both Executive Directors will be increased by 5% in 2017.

We do plan however over the period of this new policy to adjust salaries towards median of peer companies in our market to continue to retain and attract top people who can deliver superior results under ongoing challenging conditions for our industry. We will revert later in 2017 to shareholders on this issue.

2017 PSP awards

PSP will form a larger part of an Executive Director's remuneration as we will rebalance reward towards the longer term. The Committee wishes to grant 250% of annual salary PSP award in June 2017 to both Amjad Bseisu and Jonathan Swinney. These 2017 awards will include net debt as a key metric for the first time, so will be granted when, and if, shareholders support our new policy at our May 2017 AGM.

Outstanding Executive Director deferral awards

EnQuest recently discovered that its systems had failed to vest and process a number of past deferred bonus share awards for its Executive Directors. These amounts are neither new nor additional awards. They are simply the deferred bonus awards that have already been fully disclosed in earlier Annual Report and Accounts for the four years of 2010 to 2013. However, settlement is long overdue to both our Executive Directors, and while EnQuest has spent some time correcting its internal systems issues to remedy this in the future, this past obligation will be addressed in the next few months.

In 2016 we saw the clear benefits of transparency and a positive and close working relationship with major shareholders. We wish this to continue, and welcome your counsel, and are always prepared to listen and take on board suggestions that help EnQuest to continue to mature and develop.

The Committee and I wish to thank all our shareholders for their ongoing support over the years, and I hope you will all support the remuneration resolutions this year on our new Directors' remuneration policy and our 2016 implementation report.

Helmut Langanger
Chairman of the Remuneration Committee
20 March 2017

Directors' Remuneration Report continued

GOVERNANCE

General governance

The Directors' Remuneration Report has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. It also describes the Group's compliance with the Code in relation to remuneration. The Committee has taken account of the new requirements for the disclosure of Directors' remuneration and guidelines issued by major shareholder bodies when setting the remuneration strategy for the Company.

REMUNERATION POLICY

This new remuneration policy is being presented to shareholders for approval at our AGM on 25 May 2017 and, if approved, will take effect from that date.

Remuneration principles

In determining the policy during 2016 we reviewed our overall remuneration principles to ensure that they continued to be aligned to our strategy. EnQuest's strategic objective is to achieve sustainable growth by focusing on exploiting its existing reserves, developing and commercialising 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, to strengthen the link of reward for exceptional performance, as well as to emphasise the importance of our values.

In summary, the principles underpinning our remuneration policy are that remuneration for Executive Directors should be:
1. Aligned with shareholders.
2. Fair, reflective of best practice, and market competitive.
3. Comprising fixed pay set at or below the median and variable pay capable of delivering remuneration at upper quartile.
4. Rewarding performance with a balance of short term and long term elements, shifting the emphasis to longer term reward.

Executive Directors

General approach

The remuneration of the Executive Directors comprises base salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares), the Performance Share Plan ('PSP'), private medical insurance, life assurance, personal accident insurance, and cash in lieu of pension.

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

The following table details EnQuest's remuneration policy which will become binding from 25 May 2017, subject to approval at the 2017 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.	• Set at or below median when compared to a comparator group generally of the same size and industry as EnQuest and who have a similar level of enterprise value. • Salaries are typically reviewed by the Remuneration Committee in January each year.	Typically, the conditions and pay of all employees within the Company are factors considered by the Committee in its review. 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.	None.
Pension and 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 pension, with remaining benefits provided by the Company. • Executive Directors may participate in the HMRC approved Sharesave Scheme and benefit from share price growth. • Reviewed annually by the Remuneration Committee and adjusted to meet typical market conditions. • Where required, we would offer additional benefits in line with local market practice. • Any reasonable business related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed.	The maximum pension allowance that may be offered is £50,000, plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third-party providers.	None.

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
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.	• Up to 100% of salary paid as cash. All bonus above 100% of salary is deferred in EnQuest shares for 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. • Both cash and share elements of bonuses awarded from 2017 may be subject to malus or 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.	• Target award – 85% of salary in 2017, falling to 75% in 2018 and remaining at that level thereafter. • Maximum award – 175% of salary in 2017, followed by 125% in 2018 and remaining at that level thereafter.	• Using a scorecard approach, including key performance objectives such as financial, operational, project delivery, HSE&A targets and net debt. These are set annually by the Remuneration Committee, with varying weightings. • Performance against key objectives has threshold, target and stretch components. • Where the threshold level of performance is met for each element, bonuses will begin to accrue on a sliding scale from 0%.
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.	• Annual award levels may take account of the performance of the Company and the Executive Director in the prior year. • Awards 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 Employee Benefit Trust ('EBT') acquire separate beneficial interests in shares in the Company. • Awards granted from 2017 onwards are subject to malus or 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.	• Normal maximum – 250% of salary. • Exceptional maximum – 350% of salary.	• Vesting of awards granted from 2017 will be based on, but not limited to, relative TSR, reserves growth per share, production growth per share and net debt (or debt reduction). • No more than 25% of the maximum award vests at threshold. • Details of the performance conditions applied to awards granted in the year under review and for the awards to be granted in the forthcoming year are set out in the Annual Report on Remuneration. • The number, type and weighting of performance measures may vary for future awards to help drive the strategy of the business provided these are no less challenging than the existing targets. • The Committee will normally consult with major shareholders before introducing any material new metrics.

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. • Additional fees may be paid if there is a material increase in time commitment and the Board wishes to recognise this additional workload. • Any reasonable business related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed. • 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. • Reviewed periodically but at least every third year.	None.

Shareholding requirement

The Executive Directors are expected to retain 50% of shares from vested awards under the PSP (other than sales to settle any tax or social security withholdings due) until they hold at least 200% of salary in shares[1]. The Committee will review progress against this guideline on an annual basis.

1 To include shares which are beneficially owned (directly or indirectly) by family members of an Executive Director.

Performance measures and targets

Annual bonus

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

- Health, Safety, Environment and Assurance;
- financial (including EBITDA, opex and capex);
- operational performance/production;
- project delivery;
- reserves additions;
- net debt; and
- objectives linked to key accountabilities.

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

Amjad Bseisu's bonus objectives are normally based solely on the corporate scorecard of EnQuest. Jonathan Swinney's bonus objectives (and those of any new Executive Directors) may also include up to 50% based on additional objectives that cover their own specific area of key accountabilities and responsibilities.

Annual bonus and share deferrals

Executive Directors will normally receive any applicable annual bonus in cash and deferred shares. Any amount up to the equivalent of 100% of salary will be distributed in cash around the time of the announcement of full year results, with any amount above the equivalent of 100% of salary converted to EnQuest shares (without further performance conditions) and deferred for two years – subject to continued employment. In exceptional circumstances these awards may be settled in cash, but only with the pre-approval of the Remuneration Committee.

Performance Share Plan ('PSP')

The PSP is typically awarded annually and has a vesting period of three years. Performance conditions are attached to the awards and reflect the longer term strategy of EnQuest. For awards granted in 2017 these will comprise:

- TSR relative to a comparator group;
- production growth per share;
- 2P (proven and probable) reserve additions per share; and
- net debt.

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; the remuneration of other Executive Directors in the Company; appropriate benchmarks in the industry; and the financial condition of the Company. This ensures that the arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre.

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Director on a below market salary initially (for example, to allow them to gain experience in the role) their salary may be increased to a median market level over a period by way 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 and PSP, 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 executives 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.

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.

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 including the 2010 Restricted Share Plan ('RSP') will be used to the extent possible for any buyout (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.

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

Service contracts

Amjad Bseisu and Jonathan Swinney entered into service agreements with the Company which are terminable by either party giving not less than 12 months' written notice. The Company may terminate their employment without giving notice by making a payment equal to the aggregate of the Executive 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, the details of which are provided below.

Non-Executive Directors' letters of appointment	Date of appointment	Notice period	Initial term of appointment
Jock Lennox[1]	22 February 2010[1]	3 months	3 years
Carl Hughes	1 January 2017	3 months	3 years
Helmut Langanger	16 March 2010	3 months	3 years
Philip Holland	1 August 2015	3 months	3 years
Philip Nolan	1 August 2012	3 months	3 years

1 Jock Lennox also has a more recent letter of appointment following him becoming Chairman on 8 September 2016.

Directors' Remuneration Report continued

External directorships
The Company recognises that its Executive Directors may be invited to become non-executive Directors of companies outside the Company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the Company. Any external appointments are subject to Board approval (which would not be given if the proposed appointment required a significant time commitment; was with a competing company; would lead to a material conflict of interest; or could otherwise have a detrimental effect on a Director's performance). Executive Directors will be permitted to retain any fees arising from such appointments, details of which will be provided in the Annual Report on Remuneration.

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 compensation for loss of basic salary and cash benefit allowance and insured benefits for the notice period. Such payments may be made monthly and would be subject to mitigation. The Company may also enable the provision of outplacement services to a departing Executive Director, where appropriate.

When Executive Directors leave the Company with good leaver status, and they have an entitlement to unvested shares granted under the DBSP and PSP, any performance conditions associated with each award outstanding would remain in place and are normally tested at the end of the original performance period. Shares would also normally then vest on their original vesting date in the proportion to the satisfied performance conditions and are normally pro-rated for time. Awards held by Executive Directors who are not good leavers would lapse.

Annual bonus would not typically be paid to Executive Directors when leaving the Company. However, in good leaver circumstances the Committee has the discretion to pay a pro-rated bonus in cash, in consideration for performance targets achieved in the year. Deferred bonus shares held by good leavers will normally vest at the normal vesting date.

Similar provisions related to the treatment of incentive awards would apply on a change of control, with performance conditions normally tested at the date of the change of control and with pro-rating for time, although the Remuneration Committee has discretion to waive pro-rating (but not the performance conditions) where it feels this is in the best interests of shareholders.

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 Non-Executive Directors will continue to receive their normal fee.

Remuneration Committee discretion and determinations
The Committee will operate the annual bonus scheme, Deferred Bonus Share Plan, Performance Share Plan, Restricted Share Plan and Sharesave Scheme according to their respective rules and in accordance with the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these arrangements. These include, but are not limited to, the following:
- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- applying 'good leaver' status in circumstances such as death, ill health and other categories as the Committee determines appropriate and in accordance with the rules of the relevant plan;
- discretion to disapply time pro-rating in the event of a change of control or good leaver circumstances;
- discretion to settle any outstanding share awards in cash in exceptional circumstances;
- adjustments or variations required in certain circumstances (e.g. rights issues, corporate restructuring, change of control, special dividends and other major corporate events); and
- the ability to adjust existing performance conditions and performance targets for exceptional events so that they can still fulfil their original purpose.

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

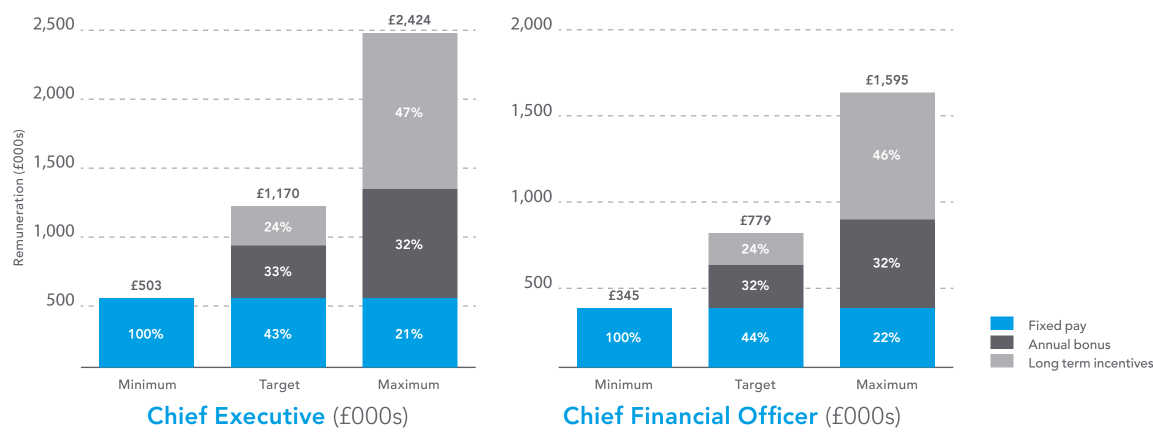
If tax liabilities arise from an error or omission by the Company that is outside of the control of the executives, the Committee will have the ability to reimburse any such tax liabilities.

Legacy awards
For the avoidance of doubt, authority is given to the Committee to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwind of legacy share schemes) that have been disclosed to shareholders in this or any previous remuneration reports or subsequently agreed in line with the approved policy in force at that time. Details of any payments to former Directors will be set out in the Annual Remuneration Report as they arise.

Remuneration outcomes in different performance scenarios
The charts on the following page set out an illustration of the remuneration arrangements for 2017 in line with the remuneration policy described in the policy section. These 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 2017 scenarios have been illustrated for each Executive Director:

Below threshold performance	• Fixed remuneration • Zero annual bonus • No vesting under the annual bonus plan
Target performance	• Fixed remuneration • 85% of annual base salary as annual bonus • 25% vesting under the PSP
Maximum performance	• Fixed remuneration • 175% of annual base salary as annual bonus • 100% vesting under the PSP



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

Note: fixed pay comprises salaries from 1 January 2017, a pension allowance of £50,000 plus medical insurance benefit of £1,000 each.

Statement of consideration of employment conditions elsewhere in the Company
The remuneration arrangements for the Executive Directors are consistent with the remuneration principles that have been established and are similar to those of the other employees of EnQuest.

The key differences are as follows:
- Executive Directors and members of the Executive Committee have their fixed pay set below or at market median for the industry (currently around lower quartile for the Executive Directors). Other employees typically have their salaries positioned at market median. Specific groups of key technical employees may have their salaries set above median for the industry.
- All employees are offered a non-contributory pension scheme. Executive Directors are given cash in lieu of pension. Non-Executive Directors do not participate in pension or benefits arrangements.
- Non-Executive Directors do not participate in the annual bonus scheme.
- If applicable, Executive Directors have an element of the annual bonus automatically converted to shares and deferred.
- All other employees may be invited to participate in the Deferred Bonus Share Plan ('DBSP') where they can elect to defer a defined proportion of their annual bonus and receive a matching amount of shares that vest over the following three years. Executive Directors are not eligible to receive matching share awards under this plan.

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

Employees have not previously been directly consulted about the setting of Directors' pay, although the Committee will take into consideration any developments in regulations in operating this policy.

Statement of shareholder views
The Remuneration Committee welcomes and values the opinions of our shareholders with regard to the levels of remuneration for Directors. The 2016 Directors' Remuneration Report was voted on at the AGM held in June 2016, where 83.5% of the votes cast were in favour of it. No concerns have been raised by shareholders to the Remuneration Committee during 2016.

In early 2017, the Committee consulted with shareholders representing about 46% of the Company's shares concerning the changes to policy set out in the policy report and the increases in Executive Directors' salaries. Shareholders were broadly supportive of the changes to the policy although, as a direct result of their feedback, our proposals were adjusted: it was decided that the bonus proposals should be phased in over time – hence the reductions to both the target and maximum bonus levels are now spread over two years; the salary increases in 2017 are lower than originally proposed; and EnQuest has committed to improving the quality of our retrospective bonus disclosures.

Directors' Remuneration Report continued

IMPLEMENTATION OF REMUNERATION POLICY IN 2016

Terms of reference

The Committee's terms of reference are available either on our website or by written request from our Company Secretarial team at our London headquarters. 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 2016

The Committee normally meets at least three times per year. During 2016, it met on five occasions to consider and agree the new remuneration policy, to review and discuss base salary adjustments for 2017, the setting of Company performance and related annual bonus for 2016, amendments to the annual bonus scheme, and approval of share awards.

Committee members, attendees and advice

Remuneration Committee member	Position	Comments
Helmut Langanger	Chairman of the Remuneration Committee	Independent
Philip Holland	Member from 12 October 2016	Independent
Philip Nolan	Member from 1 August 2012	Independent
Jock Lennox	Member until 26 January 2016	Independent

Note 1: Carl Hughes joined the Committee on 1 January 2017.
Note 2: Philip Holland was a member previously and re-joined the Committee in 2016.

Advisers to the Remuneration Committee

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions in the Company as a whole. These individuals, who are not members but may attend by invitation, included:

- the Chairman (Dr James Buckee and Jock Lennox);
- 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) who acts as secretary to the Committee.

No Director takes part in any decision directly affecting their own remuneration.

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 2016 and it includes a single total figure for each Director:

	2016 'single figure' of remuneration – £000s					
Director	**Salary and fees 2016**	**All taxable benefits 2016**	**Annual bonus 2016[1]**	**LTIP 2016[2]**	**Pension 2016[4]**	**Total for 2016**
Amjad Bseisu	**430**	**1**	**318**	**118**	**50**	**918**
Jonathan Swinney	**280**	**1**	**290**	**72**	**50**	**693**
Total	**710**	**2**	**608**	**190**	**100**	**1,611**

	2015 'single figure' of remuneration – £000s					
Director	Salary and fees 2015	All taxable benefits 2015	Annual bonus 2015[1]	LTIP 2015[3]	Pension 2015[4]	Total for 2015
Amjad Bseisu	430	1	262	151	40	884
Jonathan Swinney	280	1	334	92	30	737
Total	710	2	596	243	70	1,621

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 22 April 2014 vested on 22 April 2017.** The LTIP value shown in the 2016 single figure is calculated by taking the number of performance shares that have vested (56.1% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2016 and 31 December 2016, as the share price on 22 April 2017 was not known at the time of this report.
3 **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 share price of 40.25 on 29 April 2016.
4 Cash in lieu of pension.
5 Rounding may apply.

The remuneration of the Non-Executive Directors for the years 2015 and 2016 is made up as follows:

Director	2016 'single figure' of remuneration – £000s Salary and fees 2016	All taxable benefits 2016	Total for 2016
Jock Lennox	88	–	88
Helmut Langanger	70	–	70
Philip Holland	60	–	60
Philip Nolan	53	–	53
Clare Spottiswoode	21	–	21
Dr James Buckee	206		206
	499[1]	–	499[1]

1 Numbers do not add up exactly due to rounding.
NB: Carl Hughes – started 1 January 2017.

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

Annual bonus 2016 – paid in 2017

The Committee's belief is that any short term annual bonus should be tied both to the overall performance of the Company and the individual's performance. For Amjad Bseisu, the annual bonus for 2016 was wholly based on the Company Performance Contract. For Jonathan Swinney it was based on both the Company Performance Contract and an individual performance modifier comprising strategic and functional objectives under his individual performance contract.

The annual bonus model used for the Executive Directors 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

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.

Company Performance Contract

Category	Weighting % of target	Measure	Target: Threshold	On target	Stretch	Outcome	Score
Financial	30%	EBITDA	$453m	$500m	$548m	$477m	0.05
		Opex	$510m	$490m	$466m	$338m[1]	0.15
		Opex/BOE	$28/bbl	$27/bbl	$23.5/bbl	$23.2/bbl[1]	0.15
	20%	Increase in net debt by end 2016	$400m	$325m	$250m	$249m	0.30
Production	30%	2016 production (working interest)	44 kbd	46 kbd	54.3 kbd	39.8 kbd	0.00
Kraken	20%	FPSO sail away/overall project progress	Jan-17	Oct-16	Aug-16	Nov-16	0.09
		Production start up	Apr-17	Mar-17	Nov-16	Q2 2017	0.00
Total							**0.74**

1 Excluding all FX hedging in line with target methodology.

Any payout against the Company Performance Contract is subject to an additional underpin based on the Committee's assessment of the Company's HSE&A performance. This was reviewed by the Committee in January 2017 and was determined to be satisfactory.

Directors' Remuneration Report continued

Individual Performance Contract
Jonathan Swinney

Category	Weighting % of target	Measure	Targets: Threshold	Targets: On target	Targets: Stretch	Outcome	Score
Financial		EBITDA	$453m	$500m	$548m	$477m	
	20%	Opex	$510m	$490m	$466m	$338m[1]	0.24
		Opex/BOE	$28/bbl	$27/bbl	$23.5/bbl	$23.2/bbl[1]	
	20%	Increase in Net debt by end 2016	$400m	$325m	$250m	$249m	0.30

1 Excluding FX hedging in line with target methodology.

Category	Weighting % of target	Measure	Description	Threshold	Outcome	Score
Group financing	60%	Secure the financing of the Group	Secure funding for first oil default	Internal capital rationing	Funded through capital rationing	The Committee reviewed the performance achieved vs the criteria and determined that this represented stretch performance as completion of the financial restructuring as announced on 21 Nov 2016. This resulted in a score of 0.86 for this element
			Equity issue	+$50m by Q4	$100m raised	
			RCF renegotiation	Defer loan amortisation six months from Oct 2017 and relax covenants to end 2017	Completion of the financial restructuring was announced on 21 Nov 2016	
			Surety bond extension	By end 2016	Completion of the financial restructuring was announced on 21 Nov 2016	
Total						**1.40**

Note that for reasons of commercial sensitivity, full details of the target ranges for the strategic Group financing measures above are not being disclosed; however, the Committee has sought to provide shareholders with a thorough understanding of the objectives and performance achieved.

As such, a Company performance marginally below 'Target' was achieved by the Company, and an individual performance between 'Target' and 'Stretch' by Jonathan Swinney. This resulted in the following 2016 annual bonus levels being achieved:

Name	Company Performance Contract (A)	Individual Performance Contract (B)	Score for bonus calculation (A x B)	Total 2016 bonus award (£k)	% of base salary	% of maximum
Amjad Bseisu	0.74	n/a	0.74	£318	74%	33%
Jonathan Swinney	0.74	1.40	1.04	£290	104%	46%

The one-third of bonus that was deferred was converted to EnQuest shares and will be retained until April 2019.

2014 PSP awards that vest in 2017
The performance period for the 2014 PSP award completed on 31 December 2016 and vested in April 2017.
The results of the performance conditions for these awards are as follows:

Grant date	Vesting date	Performance period	Performance conditions and weighting: EnQuest TSR	Production	Reserves	Total award
22 Apr 2014	22 Apr 2017	1 Jan 2014–31 Dec 2016	34%	33%	33%	100%
Base level			–	24,222 Boepd	194.8 MMboe	
Threshold			Median (14th position)	28,040 Boepd	204.5 MMboe	
Maximum			Upper quartile (7th position)	32,239 Boepd	224.0 MMboe	
Actual performance achieved			Below median (16th position)	39,751 Boepd	215.5 MMboe	
Percentage meeting performance conditions and total vest			0.0%	33.0%	23.1%	56.1%

The table below shows the number of nil cost options awarded in April 2014 that vested in April 2017 and their value at 31 December 2016. This figure is calculated taking the average closing share price on each trading day of the period 1 October 2016 – 31 December 2016 and is used as the basis for reporting the 2016 'single figure' of remuneration.

Name	No. of shares	No. of adjusted shares applied	Total shares	Portion vesting	No. of shares vesting	Average share price £	Value at 31 Dec 2016 £'000s
Amjad Bseisu	604,900	56,046	660,946	56.1%	370,791	0.31923	£118,367
Jonathan Swinney	368,147	34,110	402,257	56.1%	225,666	0.31923	£72,039

Note: The increase in the number of shares reflects the acquisition of shares by the relevant individual in the placing and open offer which took place on 21 November 2016.

April 2016 PSP award grant

After due consideration of business performance in 2016, the Remuneration Committee awarded the Executive Directors the following performance shares on 22 April 2016:

	Face value (% of salary)	Face value as at 31 Dec 2016	No. of shares	No. of adjusted shares applied	Total shares	Performance period
Amjad Bseisu[1]	156%	670,800	2,069,093	191,709	2,260,802	1 Jan 2016 – 31 Dec 2018
Jonathan Swinney[1]	156%	436,800	1,347,316	124,834	1,472,150	1 Jan 2016 – 31 Dec 2018

1 The number of shares were initially granted in April 2016 at an incorrect level. They have been scaled back to correct this.

Summary of performance measures and targets – April 2016 PSP grant

The 2016 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;
- 40% relates to production growth per share; and
- 10% relates to new 2P reserve additions.

2016 PSP vesting schedule – April 2016 PSP grant

	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% CAG[1]	0%	Less than 5% CAG[1]	0%
Threshold[2]	Median	25%	10% CAG	25%	5% CAG	25%
Maximum[2]	Upper quartile	100%	20% CAG	100%	10% CAG	100%

1 Compound Annual Growth
2 Linear between threshold and maximum

PSP measure base levels

These are the historical base levels that performance is measured from, for a three year period for each annual PSP grant, up to and including the PSP award granted in 2016:

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	216.0[1] MMboe
2017	39,751 Boepd	215.5 MMboe

1 The reserve figure includes additional 10.5% share of Kraken acquired on 1 January 2016.

The comparator group companies for the TSR performance condition relating to the 2016 PSP award 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

Directors' Remuneration Report continued

The number of PSP awards outstanding as at 31 December 2016 are as follows:

	No. of shares awarded	No. of adjusted shares applied	Total shares	Performance period	Performance conditions (and weighting)	Vesting date
Grant date – April 2014					TSR (34%)	22 Apr 2017
Amjad Bseisu	604,900	56,046	660,946	1 Jan 2014 – 31 Dec 2016	Production growth (33%)	
Jonathan Swinney	368,147	34,110	402,257		Reserves additions (33%)	
Grant date – April 2015					TSR (30%)	27 Mar 2018
Amjad Bseisu	1,272,500	117,902	1,390,402	1 Jan 2015 – 31 Dec 2017	Production growth (50%)	
Jonathan Swinney	825,000	76,439	901,439		Reserves additions (20%)	
Grant date – April 2016					TSR (50%)	22 Apr 2019
Amjad Bseisu	2,069,093	191,709	2,260,802	1 Jan 2016 – 31 Dec 2018	Production growth (40%)	
Jonathan Swinney	1,347,316	124,834	1,472,150		Reserves additions (10%)	

Pension allowance
Executive Directors do not participate in the EnQuest pension plan and instead receive cash in lieu. During 2016 the level of the cash allowances, which had been in place since the Company's IPO, were reviewed in light of increases in the Directors' salaries since IPO and market norms. As a result of this review they both were increased, from £40,000 in Amjad Bseisu's case and £30,000 in Jonathan Swinney's, to £50,000. These are equivalent to 11.6% of Amjad Bseisu's salary and 17.9% of Jonathan Swinney's salary.

Statement of Directors' shareholding and share interests
The interests of the Directors in the share capital of the Company as at 31 December 2016 are shown below:

In 2016 the following awards were granted, vested and lapsed for the Executive Directors

PSP	31-Dec-15	Granted	Lapsed	No. of adjusted shares applied	31-Dec-16	Vesting period	Expiry date
Amjad Bseisu	490,000		114,660	34,776	410,116	29 Apr 2013 – 29 Apr 2016	28 Apr 2023
	604,900			56,046	660,946	22 Apr 2014 – 22 Apr 2017	22 Apr 2024
	1,272,500			117,902	1,390,402	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
		2,069,093		191,709	2,260,802	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
Jonathan Swinney	300,000		70,200	21,291	251,091	29 Apr 2013 – 29 Apr 2016	28 Apr 2023
	368,147			34,110	402,257	22 Apr 2014 – 22 Apr 2017	22 Apr 2024
	825,000			76,439	901,439	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
		1,347,316		124,834	1,472,150	22 Apr 2016 – 22 Apr 2019	22 Apr 2026

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

The interests of Directors in the Ordinary shares of the Company

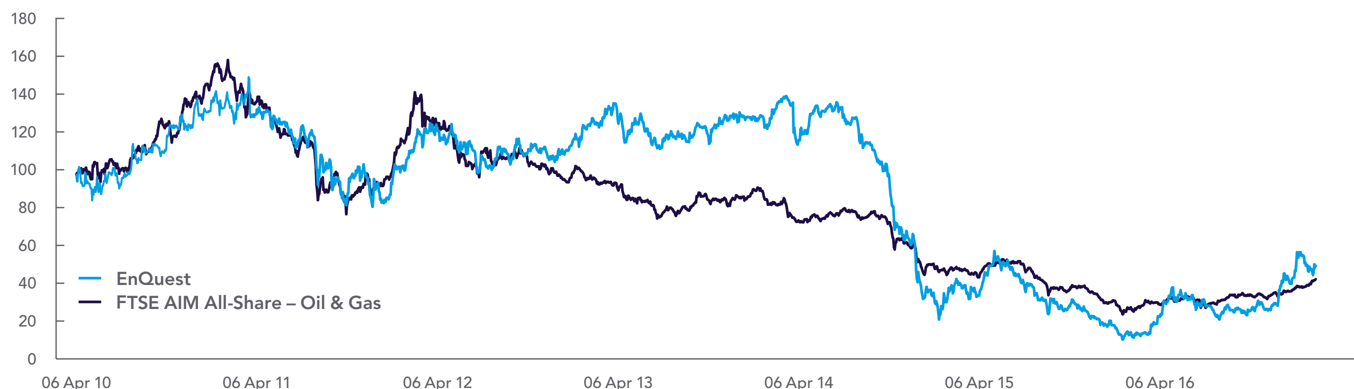
	Legally owned (number of shares)	Value of legally owned shares as % of salary	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the PSP	Vested but not exercised under the RSP	Sharesave	Total at 31 December 2016
Amjad Bseisu	103,141,033	10074%	4,312,150[2]	1,174,975	2,404,260	0	111,032,418
Jonathan Swinney	89,603	13%	2,775,847[2]	708,868	764,574	61,475	4,400,367
Jock Lennox	28,888						28,888
Helmut Langanger	288,889						288,889
Philip Holland	108,332						108,332
Philip Nolan	216,667						216,667
Carl Hughes[1]	20,000						20,000[1]

1 Shares purchased on 26 January 2017.
2 See note 1 under April 2016 PSP award grant table on page 77.

INFORMATION NOT SUBJECT TO AUDIT

Total shareholder return and CEO total remuneration

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. The FTSE AIM All-Share Oil & Gas has been selected for this comparison as it is the index whose constituents most closely reflect the size and activities of EnQuest.



Historical Chief Executive pay – single figure history

The table below sets out details of the Chief Executive's pay for 2016 and the previous six 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 shown elsewhere in this report.

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

	2010	2011	2012	2013	2014	2015	**2016**
'Single figure' of total remuneration (£000s)	3,004	731	910	1,356	817	884	**918**
Annual bonus (as a % of maximum)	80%	42%	60%	50%	24%	27%	**33%**
Long term incentive vesting rate (as a % of maximum PSP)	–	–	–	67%	79%	77%	**56%**

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:

	2015 $ million	**2016 $ million**
EBITDA	474	**477**
Distribution to shareholders	0	**0**
Total employee pay	99	**87**

Increase in the Chief Executive's pay relative to the workforce between 2015 and 2016

	Base salary %	Bonus %	Benefits %
Amjad Bseisu	0%	21%	24%
All employees (average)	0%	11%	3%

Statement of implementation of remuneration policy in 2017

Base salary and 2017 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 2017:

Name	Salary for 2016	Salary for 2017	% increase
Amjad Bseisu	£430,000	£451,500	5.0%
Jonathan Swinney	£280,000	£294,000	5.0%

Salaries for both Amjad Bseisu and Jonathan Swinney were increased in 2017 following a consultation with major shareholders and representative bodies to reflect the continuing growth and performance of EnQuest and the performance of the executives in the role. The increases for both Executive Directors continue to position their base salaries around the lower quartile range of their peers. We do plan over the period of this new policy to adjust salaries towards the median of peer companies in our market to continue to retain and attract top people who can deliver superior results under ongoing challenging conditions for our industry. We will revert later in 2017 to shareholders on this issue.

Directors' Remuneration Report continued

Non-Executive Director fees
A summary of our current fees, from 1 January 2017, is as follows:

Chairman	£150,000
Director fee	£50,000
Senior Independent Director	£10,000
Committee Chairman	£10,000

These are unchanged from 2016.

Annual bonus
The annual bonus scheme for 2017 is structured as follows:
- Executive Directors (and other executive management) will have threshold, target and stretch performance levels attributed to key performance objectives
- Amjad Bseisu's bonus will be determined solely by the performance of the Company
- Jonathan Swinney's bonus will be determined 50% on the performance of the Company and 50% on performance concerning his direct area of financial authority
- Each part of the bonus will represent a discrete element which will add together to determine performance
- Maximum levels of award in 2017 for the Executive Directors can be up to 175% of annual base salary applicable in the year of performance, and the target level will be 85%
- Stretching targets continue to apply to achieve maximum payout.

The 2017 metrics and weightings, which will determine the level of short term incentive awards for the Directors, are set out below:

Company 2017 performance measures scorecard

Category	Weighting
Production	30%
Opex/capex	30%
Net debt	20%
Magnus/SVT integration	20%

Notes:
1 Precise targets are commercially sensitive and are not being disclosed in advance 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.

Performance share awards
2017 PSP awards
After due consideration of business performance in 2016, the continued growth of EnQuest, the performance of the Executive Directors, as well as other factors, the Remuneration Committee decided to award grants equal to 250% of salary for Amjad Bseisu and Jonathan Swinney. These awards will be granted shortly after the May 2017 AGM.

Summary of 2017 PSP performance measures and targets
The PSP share awards granted in 2017 will have four performance metrics, each of which is measured over a three year financial period:
- 30% of the award relates to TSR against a comparator group of oil and gas companies
- 30% relates to production growth per share (on a compound annual growth, or 'CAG', basis)
- 10% relates to reserves growth per share (on a relative growth basis)
- 30% relates to net debt (on an relative reduction basis)

2017 PSP – schedule for 2020 vesting

	Relative TSR		Production growth per share (over three years)		Reserves growth per share		Reduction in net debt	
	Performance	Vesting	Performance	Vesting	Performance	Vesting	Performance	Vesting
Below Threshold	Below median	0%	Less than 10% growth from base (CAG)	0%	Less than 105% of base	0%	Less than 15% reduction	0%
Threshold	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	15% reduction	25%
Maximum	Upper quartile	100%	20% growth from base (CAG)	100%	110% of base	100%	30% reduction	100%

2017 PSP – performance target base levels

Production growth per share base level	Reserves growth per share base level	Net debt
39,751 Boepd	215.5 MMboe	$1,796.5m

2017 PSP award TSR comparator group

Tullow Oil
Premier Oil
Blackpearl Resources
Soco International
Genel Energy
Faroe Petroleum
Ophir Energy
Cairn Energy
Rockhopper Exploration
Lundin Petroleum
Africa Oil
Amerisur Resources
Bowleven

Outstanding 2010 to 2013 deferral awards
Following an internal review, EnQuest identified an administrative oversight whereby both Executive Directors had a number of deferred bonus awards outstanding which were not processed. These deferrals relate to bonuses for the four business years of 2010 to 2013, that were correctly disclosed at that time. Amjad Bseisu's outstanding share awards had a grant value of £600,000 and Jonathan Swinney's had a grant value of £370,000. As a result of an administrative oversight by the Company, vesting of these awards was not processed at the original annual vesting dates from 2013 to 2016. EnQuest's intention is, subject to approval of the new Directors' remuneration policy at the 2017 AGM, to settle these outstanding vested awards in cash rather than in shares as they are well past their original vesting dates and it will assist prompt receipt and tax withholding.

Advisers to the Committee
Aon New Bridge Street provided advice to the Remuneration Committee on proposed changes to the policy and were selected by the Chairman of the Remuneration Committee on the basis of previous experience and marketplace reputation.

The Committee satisfied itself that the advice given was objective and independent by reviewing it against other companies in EnQuest's comparator group. New Bridge Street is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest. New Bridge Street does not provide any other services to the Company. The fees paid to New Bridge Street totalled £24,743 (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 1 June 2016 in respect of the Remuneration Report. 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 for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Report (2016)	329,129,022	83.50%	65,039,777	16.50%	394,168,799	22,743,711

Helmut Langanger
Chairman of the Remuneration Committee
20 March 2017

Nomination Committee Report

"An area of focus for the Committee has been to ensure that the skills of the Board reflects the evolution of the business of the Company itself."

Dear Shareholder

I am pleased to present to you the report of the work of the Nomination Committee during 2016.

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

In 2015 an external Board evaluation was held and recommendations which have been implemented by the Committee are highlighted below and discussed further on page 58:
- 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; and
- structured Board succession planning.

Over the past year there have been a number of changes to the composition of the Board and Committees. As explained in my letter on pages 54–55, Clare Spottiswoode stepped down from the Board at the 2016 AGM and Dr Jim Buckee retired as Chairman in September 2016. Helmut Langanger as Senior Independent Director led the succession process for the Chairman and an explanation of how it was conducted is provided at the end of this Committee report.

In January 2017 the Board was further strengthened by the appointment of Carl Hughes, who brings to the Board and Audit Committee, of which he is Chairman, considerable financial, accounting, audit and governance skills. More detail on his recruitment process is found on page 83. Neil McCulloch, previously President, North Sea, was appointed Chief Operating Officer in January 2017 and will join the Board of Directors as an Executive Director following approval by the shareholders at the 2017 AGM. A further search is underway for an additional Board member.

An area of focus for the Committee in relation to Board composition has been to ensure that the skills of the Board reflect the evolution of the business of the Company itself. For example, Philip Holland (who was appointed in 2015) has considerable experience of capital projects, which has proved invaluable as the Kraken project has progressed and Carl Hughes brings considerable financial acumen now the Company is focused on deleveraging its debt. Going forward we will continue to follow this approach in our succession planning.

Jock Lennox
Chairman of the Nomination Committee
20 March 2017

Nomination Committee membership

The Nomination Committee comprises the Chairman of the Company, the Senior Independent Director and the Chief Executive. Appointment dates and attendance at meetings is set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jim Buckee (Chairman)[1]	22 February 2010	1/2
Jock Lennox	8 September 2016	1/1
Amjad Bseisu	22 February 2010	2/2
Helmut Langanger	16 March 2010	2/2

1 Jim Buckee stepped down as Chairman of the Committee on 8 September 2016 and was succeeded by Jock Lennox.

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. For the appointment of Carl Hughes and in the search for an additional Director we have used Zygos, 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. The appointment of the Chairman in 2016 was conducted by the Senior Independent Director and this is detailed separately on page 84.

Committee activities during the year
The Nomination Committee met twice in 2016 and its key activities included:

Assessment of the performance of each Board member by the Chairman
In December 2016 we circulated a questionnaire to Board members to facilitate feedback on the performance of the Board. In addition I spoke with each of the Directors individually in order to ensure that each continued to contribute effectively and I remain satisfied that this is the case.

Structured Board succession planning
The Committee is focused on succession planning in order to 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 planned rotation takes place to ensure that retirements are phased and there is continuity of appropriate competencies. The Nomination Committee also focused on the succession of senior management, to ensure that the Board, and the Chief Executive, remain fully supported in the implementation of the Company's 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.

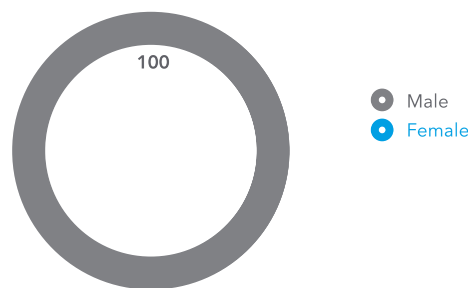
Committee membership streamlined
Another area of focus for the Committee has been to review and adjust the membership of the Committees of the Board. This was reviewed in January 2016 following the 2015 external evaluation and it was further updated following the departures of Clare Spottiswoode at the 2016 AGM, Dr Jim Buckee in September and also the appointment of Carl Hughes in January 2017. In addition, Philip Nolan stepped in to become Chairman of the Audit Committee while the search for a new Non-Executive Director to become the Audit Committee Chairman was being conducted.

Overboarding
We considered new guidance which recommended that shareholders vote against the re-election of Directors if they took on too many external non-executive roles. While we believe that the members of the Board do have sufficient time to fulfil their duties, the Nomination Committee agreed that all Directors would seek the consent of the Chairman before accepting an external role and that this would be added to all Board appointment letters.

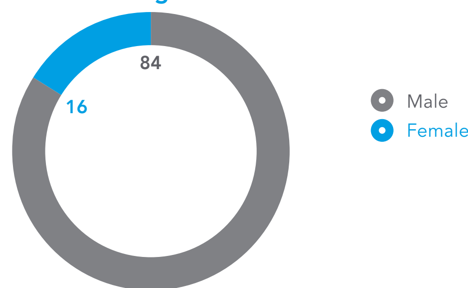
Priorities for the coming year
The main focus of the Committee in 2017 will be to continue to manage the succession of the Non-Executive Directors to ensure that they continue to be independent and of the highest possible calibre. In addition, we shall continue to focus on succession planning of the Executive Directors, senior management and also development planning for high potential individuals within the Company to ensure that the Company's organisation has both the necessary capacity and capabilities in delivering its principal activities. In conjunction with Zygos, the process of building on our rotation plans continues.

Boardroom diversity
In reviewing Board composition, 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 on merit and against objective criteria in order to achieve the most effective Board possible. We are mindful of both the recent Hampton/Alexander and Parker Reviews and are seeking to achieve the appropriate balance of the Board as we continue our succession planning. We believe that our gender statistics are representative of the demographics of the wider oil and gas industry.

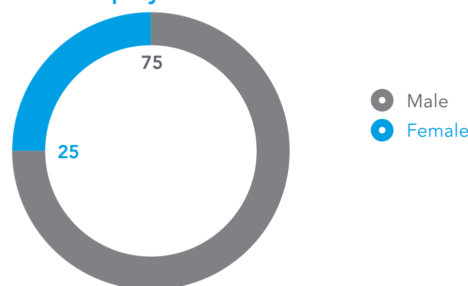
Directors %



Senior managers %



Total employees %



Nomination Committee Report continued

Re-election to the Board

Following a formal review of the effectiveness of the Board, the Nomination Committee confirms that it is satisfied with both the performance and the time commitment of each 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 that together they 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 50–51.

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.

Chairman's succession – a message from the Senior Independent Director

On 8 September 2016, Dr Jim Buckee retired as Chairman of the Company after serving on the Board for six years.

The process to appoint a successor to Dr Buckee was led by myself with the support of the Company Secretary. The Board identified that a Chairman with a financial background would be required, given the shift in the Company's strategic priorities, and therefore initiated a succession planning exercise. It was concluded that an external search was not appropriate given the circumstances of the Company, the likely forthcoming restructuring and the strong qualifications of internal candidates. Following due process, Jock Lennox was selected as the appropriate candidate to ensure a seamless transition were Jim to step down.

Given Jim's position as Nomination Committee Chairman, the decision was taken to form a sub-committee of the Board comprised of Non-Executive Directors to make the final approval as to the appointment of the Chairman once Jim's intention to retire had been confirmed. Following unanimous agreement it was confirmed that Jock Lennox be appointed Chairman of the Company with effect from 8 September 2016.

Helmut Langanger
Senior Independent Director
20 March 2017

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 2016. These will be laid before shareholders at the AGM to be held on Thursday 25 May 2017.

Dividends

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 meeting the conditions for dividend payments which the Company has agreed with its lenders and such other factors as the Board of Directors of the Company consider appropriate.

Directors

The Directors' biographical details are set out on pages 50–51. All the Directors will offer themselves for election or re-election at the AGM on 25 May 2017. All the current Directors served throughout the year, except for Carl Hughes who was appointed on 1 January 2017 and Neil McCulloch who, subject to shareholder approval, will become a Director on 25 May 2017. Both Carl and Neil 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 Regulations 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 business locations. 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. 63% of staff are currently participating in SAYE as at 16 February 2017.

Directors' interests

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

Name	At 31 December 2015	At 31 December 2016[1]	At 15 March 2017
Amjad Bseisu[2]	71,405,331	103,141,033	103,141,033
Helmut Langanger	200,000	288,889	288,889
Jock Lennox	20,000	28,888	28,888
Carl Hughes[3]	n/a	n/a	20,000
Philip Holland	74,999	108,332	108,332
Philip Nolan	150,000	216,667	216,667
Jonathan Swinney	62,033	89,603	89,603

Notes:
1 The increase in the number of shares reflects the acquisition of shares at a ratio of four new shares for every nine existing shares by the relevant individual in the placing and open offer which took place on 21 November 2016. More information on the placing and open offer can be found on page 32.
2 The shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest.
3 Appointed 1 January 2017.

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. Prior to the November 2016 placing and open offer, which is discussed in more detail on page 32, there were 802,660,757 Ordinary shares in issue. Following the admission to the market of an additional 356,738,114 Ordinary shares on 21 November 2016, there were 1,159,398,871 Ordinary shares in issue at the end of the year (2015: 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 123. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2016 or up to and including 20 March 2017, 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 2016 except for 10,739,486 shares which were acquired through the placing and open offer having been funded by a loan by the Company of £2,480,000. At year end, the Trust held 2.89% of the issued share capital of the Company (2015: 3.33%) 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 Disclosure and Transparency Rules ('DTR'):

Name	Number of Ordinary shares held at 31 December 2016	% of issued share capital held at 31 December 2016	Number of Ordinary shares held as at 15 March 2017	% of issued share capital held as at 15 March 2017
Aberforth Partners	102,207,001	8.82	103,907,001	8.96
Amjad Bseisu Family[1]	103,141,033	8.90	103,141,033	8.90
Baillie Gifford & Co Ltd	88,631,801	7.64	86,557,768	7.47
Aberdeen Asset Managers Limited	67,295,669	5.80	60,947,213	5.26
Swedbank Robur Fonder AB	48,917,170	4.22	48,917,170	4.22
Hargreaves Lansdown Asset Management	30,406,571	2.62	35,339,268	3.05
EnQuest Employee Benefit Trust	33,563,282	2.89	33,558,817	2.89

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.

Annual General Meeting

The Company's AGM will be held at Café Royal Hotel, 68 Regent Street, London W1B 4DY on 25 May 2017. 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 148.

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 statements. 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 uncertainty 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.

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 renegotiated 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 due 2022 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 Company's $650,000,000 senior notes due 2022, 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.

	MCR reporting year	2016		2015		2013
		Including Malaysia	Excluding Malaysia	Including Malaysia	Excluding Malaysia	Baseline
Scope 1 (direct combustion) and Scope 2 (consumed electricity) emissions	Emissions tCO_2e	1,250,452	746,029	862,496	621,588	526,307
	Intensity ratio $kgCO_2e$/BOE	62.11	50.26	45.63	47.18	39.31
Scope 3 (Helicopter flights UK operations)	Emissions tCO_2e	N/A	4,301			

Where BOE = barrel of oil equivalent.

Political donations

At the 2016 AGM a resolution was passed giving the Company authority to make political donations and/or incur political expenditure as defined in Sections 362 to 379 of the Companies Act 2006. Although the Company does not make and does not intend to make political donations or to incur political expenditure, the legislation is very broadly drafted and may catch such activities as funding seminars or functions to which politicians are invited, or may extend to bodies concerned with policy review, law reform and representation of the business community that the Company and its subsidiaries might wish to support.

No political donations were made in 2016 by the Company or any of its subsidiaries.

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. Information on the Company's policy on audit tendering and rotation is found on page 65.

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 30 to 35. The Board's assessment of going concern and viability for the Group is set out on pages 34 to 35. In addition, note 26 to the financial statements on pages 135 to 137 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.

Further disclosures

Further disclosure requirements as required by the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure and Transparency Rules are found on the following pages of the Company's Annual Report and are incorporated into the Directors' Report by reference:

Disclosure	Page number
Future developments	14
Acquisitions and disposals	18
Fair treatment of disabled employees	37
Anti-slavery disclosure	39
Corporate Governance Statement	56–59
Gender diversity	83
Financial risk and financial instruments	136
Important events subsequent to year end	138

The Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 20 March 2017.

Stefan Ricketts
Company Secretary

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Statement of Directors' Responsibilities
for 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 (IFRSs) 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, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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
- make an assessment of the Group's ability to continue as a going concern.

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 Group's position and performance, business model and strategy, and making a statement to that effect. This statement is set out on page 59 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 2016 and of the Group's profit for the year then ended;
- 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 2016;
- 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 2016	Company Balance sheet as at 31 December 2016
Group Balance Sheet as at 31 December 2016	Company Statement of Changes in Equity at 31 December 2016
Group Statement of Changes in Equity at 31 December 2016	Notes 1 to 12 to the Company financial statements
Group Statement of Cash Flows for year ended 31 December 2016	
Notes 1 to 30 to the Group financial statements for the year ended 31 December 2016	

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 • Estimates of oil and gas reserves • Impairment of the carrying value of tangible and intangible assets (including goodwill) • Complexity of the deferred taxation calculation
Audit scope	• We performed an audit of the complete financial information of two components: North Sea (full scope) and Malaysia (specific scope) • The components where we performed full or specific audit procedures accounted for 100% of profit before tax, 100% of revenue and 100% of total assets
Materiality	• Overall Group materiality of $8.9 million 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 continued

to the Members of EnQuest PLC (Registered Number: 07140891)

Risk	Our response to the risk	What we concluded to the Audit Committee
Going concern (including the effect of oil prices, and bank covenants) (Fraud Risk) *Refer to the Audit Committee Report (page 62); Accounting policies (page 104); and note 2 of the Annual Report and Accounts (page 104).* With the continued low oil price environment and capex requirements, there is a heightened awareness around going concern, in particular future projections of cash flows, oil prices and reserves, and the impact of the refinancing. The risk has increased over the course of the current year due to the sustained low oil prices through the period and the continued capital expenditure on major projects but was significantly reduced later in the year by the refinancing of the borrowing facilities completed in November 2016.	We performed procedures to understand management's going concern review process. Our audit procedures included: • obtaining and reviewing the directors' assessment, including reviewing and challenging the liquidity position, mitigating factors and conclusions; • auditing the covenant calculations to ensure they had been calculated correctly in accordance with the revolving credit facility agreement; • 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, foreign exchange and future cost (capex and opex) projections; • 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 assumptions and mitigating factors that management have made with regards to potential actions to remedy potential 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 an appropriately challenging scenario 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 62); Accounting policies (page 163); and note 2 of the Annual Report and Accounts (page 103).* The estimation of oil and gas reserves requires significant judgement and assumptions by management and engineers which could be manipulated to achieve desired results. These estimates have a material impact on the financial statements. There is technical uncertainty in assessing reserve quantities and complex contractual arrangements dictating EnQuest's share of reserves, particularly the PSA and RSA 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, and the role of external specialists in auditing management's estimations. 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 2016 and held a meeting with them to discuss their work and findings. We considered whether management had exercised any bias in assumptions used or the outputs produced by the reserves estimation exercise, including review of any reconciliations between internal and third party reserves reports. 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 experts.

Risk	Our response to the risk	What we concluded to the Audit Committee
Impairment and impairment reversal of the carrying value of tangible ($2,963 million) and intangible assets (including goodwill) ($240 million) *Refer to the Audit Committee Report (page 62); Accounting policies (page 103); and note 11 of the Annual Report and Accounts (page 120).* The front end of the forward oil price curve has increased significantly since the prior year, representing a potential trigger for impairment reversal. In addition, the low oil price environment continues to be a potential indicator of impairment, as well as the ongoing potential of reduced asset performance, which could impact the carrying values of the assets. Accounting standards require management to assess whether indicators of impairment or impairment reversal exist. Where indicators exist management must carry out an impairment test. The risk has remained the same as last year given the potential for both impairments and impairment reversals.	The principal indicator of impairment was the poor performance of the Alma Galia and Tanjong Baram assets, while a recovery in short-term prices was identified as a potential indicator of impairment reversals. 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, reversal triggers and considered management's assessment of indicators. We audited management's assessment of impairment indicators and whether or not a formal impairment test was required. Where a formal impairment test was necessary, we 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 valuation specialists to assist us in the audit of key assumptions.	There are a number of factors which have an impact on the impairment charge/reversals. The impairment calculations are particularly sensitive to both future oil prices and discount rates. In our view the 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 charges and reversals on both tangible and intangible assets are appropriate.

Independent Auditor's Report continued

to the Members of EnQuest PLC (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 $22 million (2015: $593 million credit); deferred tax assets $207 million (2015: $139 million); and deferred tax liabilities $15 million (2015: $59 million) *Refer to the Audit Committee Report (page 63); Accounting policies (page 104); and note 7 of the Annual Report and Accounts (page 116).* The calculation of the deferred tax balances involves significant estimates, including phasing of cash flows, future oil prices and reserves, which increase the risk of incorrectly recording deferred tax. The risk has remained the same compared to last year.	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 or 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 Income taxes. 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.	No issues have been noted in relation to the calculation of deferred taxation amounts and the recoverability of deferred tax assets.

The scope of our audit

Tailoring the scope

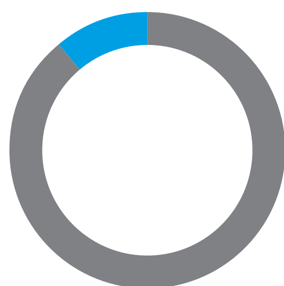
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the 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.

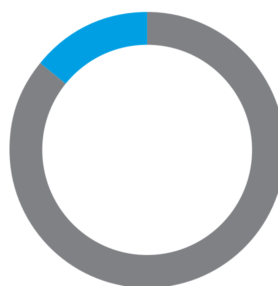
The reporting components where we performed audit procedures accounted for 100% (2015: 100%) of the Group's EBITDA, 100% (2015: 100%) of the Group's revenue and 100% (2015: 100%) of the Group's total assets. For the current year, the full scope components contributed 89% (2015: 91%) of the Group's EBITDA, 86% (2015: 87%) of the Group's revenue and 95% (2015: 95%) of the Group's total assets. The specific scope component contributed 11% (2015: 9%) of the Group's EBITDA, 14% (2015: 13%) of the Group's Revenue and 5% (2015: 5%) 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 tested for the Group.

EBITDA %



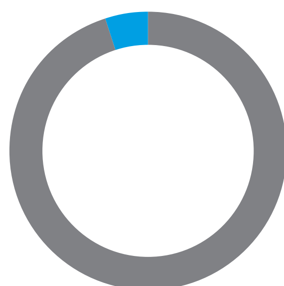
89% Full scope components
11% Specific scope components

Revenue %



86% Full scope components
14% Specific scope components

Total assets %



95% Full scope components
5% Specific scope components

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 components, 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.

The senior statutory auditor visited Malaysia. 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, reviewing key working papers and being 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.

Independent Auditor's Report continued

to the Members of EnQuest PLC (Registered Number: 07140891)

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 $8.9 million (2015: $9 million), which is 2% (2015: 2%) of EBITDA. We believe that EBITDA provides us with the most appropriate basis to use as this is a key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the Group's debt and is the measure most focussed on by stakeholders. With the impact of the continued low oil price environment on the oil and gas industry, profit before tax 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.

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% (2015: 50%) of our planning materiality, namely $4.45 million (2015: $4.5 million).

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 $4.0 million to $1.34 million (2015: $4 million to $0.9 million).

Reporting threshold

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

We collated errors in excess of $0.4 million (2015: $0.5 million), 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 $0.75 million (2015: $0.75 million), 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 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 2016 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 90, 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 87, 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 12 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

20 March 2017

Notes:
1. The maintenance and integrity of the EnQuest PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept 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 2016

	Notes	2016 Business performance US$'000	2016 Remeasurements, and exceptional items (note 4) US$'000	2016 Reported in year US$'000	2015 Business performance US$'000	2015 Remeasurements and exceptional items (note 4) US$'000	2015 Reported in year US$'000
Revenue and other operating income	5(a)	**849,627**	**(51,504)**	**798,123**	906,582	1,932	908,514
Cost of sales	5(b)	**(653,518)**	**(2,848)**	**(656,366)**	(733,408)	(15,130)	(748,538)
Gross profit/(loss)		**196,109**	**(54,352)**	**141,757**	173,174	(13,198)	159,976
Exploration and evaluation expenses	5(c)	**(68)**	**(776)**	**(844)**	(325)	(9,059)	(9,384)
Impairment reversal/(charge) to investments	4	**–**	**48**	**48**	–	(566)	(566)
Net impairment reversal/(charge) to oil and gas assets	4	**–**	**147,871**	**147,871**	–	(1,224,463)	(1,224,463)
Loss on disposal of land and buildings	4	**–**	**–**	**–**	–	(8,473)	(8,473)
Loss on disposal of intangible oil and gas assets	4	**–**	**(16,178)**	**(16,178)**	–	(2,264)	(2,264)
General and administration expenses	5(d)	**(10,890)**	**–**	**(10,890)**	(14,371)	(3,611)	(17,982)
Other income	5(e)	**51,936**	**31,506**	**83,442**	15,431	1,936	17,367
Other expenses	5(f)	**(9)**	**(118)**	**(127)**	–	(29,635)	(29,635)
Profit/(loss) from operations before tax and finance income/(costs)		**237,078**	**108,001**	**345,079**	173,909	(1,289,333)	(1,115,424)
Finance costs	6	**(122,232)**	**(7,043)**	**(129,275)**	(176,384)	(50,097)	(226,481)
Finance income	6	**1,440**	**–**	**1,440**	964	–	964
Profit/(loss) before tax		**116,286**	**100,958**	**217,244**	(1,511)	(1,339,430)	(1,340,941)
Income tax	7	**5,224**	**(37,256)**	**(32,032)**	129,328	452,128	581,457
Profit/(loss) for the year attributable to owners of the parent		**121,510**	**63,702**	**185,212**	127,817	(887,302)	(759,484)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Fair value gains/(losses) on cash flow hedges				**(29,048)**			356,540
Transfers to profit or loss of cash flow hedges				**(239,565)**			(244,445)
Transfers to balance sheet of cash flow hedges				**278**			–
Deferred tax on cash flow hedges	7			**134,177**			(37,283)
Other comprehensive income for the year, net of tax				**(134,158)**			74,812
Total comprehensive income for the year, attributable to owners of the parent				**51,054**			(684,672)
Earnings per share	8	**US$**		**US$**	US$		US$
Basic		**0.149**		**0.227**	0.165		(0.980)
Diluted		**0.145**		**0.221**	0.165		(0.980)

The attached notes 1 to 30 form part of these Group financial statements.

Group Balance Sheet

At 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,963,446**	2,436,672
Goodwill	11	**189,317**	189,317
Intangible oil and gas assets	12	**50,332**	46,530
Investments	13	**171**	123
Deferred tax assets	7	**206,742**	138,525
Other financial assets	20	**23,429**	15,262
		3,433,437	2,826,429
Current assets			
Inventories	14	**74,985**	67,629
Trade and other receivables	15	**202,666**	351,873
Current tax receivable		**925**	3,666
Cash and cash equivalents	16	**174,634**	269,049
Other financial assets	20	**39,342**	258,692
		492,552	950,909
TOTAL ASSETS		**3,925,989**	3,777,338
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**208,639**	113,433
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**41**	134,199
Share-based payment reserve		**(6,602)**	(11,995)
Retained earnings		**(46,081)**	(231,293)
TOTAL EQUITY		**818,852**	667,199
Non-current liabilities			
Borrowings	19	**1,052,075**	907,073
Bonds	19	**855,739**	870,281
Provisions	22	**584,266**	686,577
Trade and other payables	23	**42,587**	–
Other financial liabilities	20	**19,767**	7,684
Deferred tax liabilities	7	**15,027**	59,198
		2,569,461	2,530,813
Current liabilities			
Borrowings	19	**49,601**	10,150
Bonds	19	**–**	12,319
Obligations under finance leases	24	**–**	36
Provisions	22	**30,041**	–
Trade and other payables	23	**410,261**	543,518
Other financial liabilities	20	**44,274**	9,169
Current tax payable		**3,499**	4,134
		537,676	579,326
TOTAL LIABILITIES		**3,107,137**	3,110,139
TOTAL EQUITY AND LIABILITIES		**3,925,989**	3,777,338

The attached notes 1 to 30 form part of these Group financial statements.

The financial statements on pages 98 to 139 were approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital US$'000	Merger reserve US$'000	Cash flow hedge reserve US$'000	Share-based payments reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2015	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
Profit for the year	**–**	**–**	**–**	**–**	**185,212**	**185,212**
Other comprehensive income	**–**	**–**	**(134,158)**	**–**	**–**	**(134,158)**
Total comprehensive income for the year	**–**	**–**	**(134,158)**	**–**	**185,212**	**51,054**
Issue of share capital, net of expenses	**95,206**	**–**	**–**	**–**	**–**	**95,206**
Share-based payment	**–**	**–**	**–**	**8,452**	**–**	**8,452**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**–**	**(3,059)**	**–**	**(3,059)**
At 31 December 2016	**208,639**	**662,855**	**41**	**(6,602)**	**(46,081)**	**818,852**

The attached notes 1 to 30 form part of these Group financial statements.

Group Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	30	**408,247**	221,694
Cash received on sale of financial instruments		**(14,541)**	29,571
Decommissioning spend	22	**(6,355)**	(5,342)
Income taxes paid		**(7,890)**	(1,370)
Net cash flows from operating activities		**379,461**	244,553
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(601,696)**	(806,965)
Purchase of intangible oil and gas assets		**(8,928)**	(19,600)
Proceeds from disposal of land and buildings		**–**	68,425
Proceeds from disposal of intangible oil and gas assets		**1,466**	7,065
Acquisitions	29	**–**	(3,000)
Interest received		**422**	419
Net cash flows used in investing activities		**(608,736)**	(753,656)
FINANCING ACTIVITIES			
Gross proceeds from issue of shares		**101,628**	–
Share issue and debt restructuring costs paid		**(21,152)**	–
Shares purchased by Employee Benefit Trust		**(3,059)**	–
Proceeds from bank facilities		**174,997**	736,058
Repayment of bank facilities		**(10,150)**	(48,491)
Repayment of obligations under finance leases		**(35)**	(35)
Interest paid		**(83,207)**	(76,120)
Other finance costs paid		**(9,842)**	(15,191)
Net cash flows from financing activities		**149,180**	596,221
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(80,095)**	87,118
Net foreign exchange on cash and cash equivalents		**(9,385)**	(1,510)
Cash and cash equivalents at 1 January		**257,540**	171,932
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**168,060**	257,540
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**168,060**	257,540
Restricted cash	16	**6,574**	11,509
Cash and cash equivalents per balance sheet		**174,634**	269,049

The attached notes 1 to 30 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2016

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 principal activities of the Company and its subsidiaries (together the 'Group') 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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 20 March 2017.

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 2016 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 2016.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. The presentation currency of the Group financial information is the US Dollar and all values in the Group financial information are rounded to the nearest thousand (US$'000) except where otherwise stated.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption is provided in the 'Going Concern' section of the Financial Review as set out on pages 34 and 35.

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.

Joint arrangements

Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations 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 operation applicable to the Group's interests. The Group's current interests in joint operations are detailed on page 18.

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 reviews 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, 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 IFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

Amendments to IFRS 11 Joint Arrangements for Acquisition of Interests

The amendments to IFRS 11 require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply the principles for business combinations accounting in IFRS 3. In addition, the acquirer shall disclose the information required by IFRS 3 for business combinations. The amendments clarify that a previously held interest in a joint operation is not remeasured when an additional interest in the same joint operation is acquired, as long as joint control is retained.

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 applied prospectively for annual periods beginning on or after 1 January 2016. In August 2016, the Group acquired an additional interest in the West Don field. The Group considers that the activity of this joint arrangement constitutes a business and therefore has accounted for the acquisition of this additional interest in accordance with the business combinations principles of IFRS 3 (see note 29). Otherwise, these amendments did not have any material 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 did not have any material impact on the Group given that the Group does not use a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012–2014 Cycle
The improvements were adopted with effect from 1 January 2016 and did not have any material impact on the Group.

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 financial statements in the period of initial application.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. 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, issued in January 2016, 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.

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, development and production of oil and gas assets. 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, goodwill and the estimate of the cost recovery provision
Determination of whether oil and gas assets or goodwill have 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 cash flow 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 10% (2015: 8.5%); commercial reserves and the related cost profiles. As the production and related cash flows can be estimated from EnQuest's experience, management believes that the estimated cash flows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

These same models and assumptions are used in the calculation of the cost recovery provision (refer note 22).

Determining the fair value of property, plant and equipment on business combinations
The Group determines the fair value of property, plant and equipment acquired in a business combination 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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

2. Summary of significant accounting policies continued

Decommissioning provision

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

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

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2% (2015: 2%) and an annual discount rate of 2.3% (2015: 3%).

Debt restructuring

EnQuest has assessed that Group's debt restructuring, effective 21 November 2016, has resulted in a substantial modification of the terms of its revolving credit facility (refer note 20). Accordingly, extinguishment accounting has been applied, resulting in the derecognition of the carrying value of the facility, including any unamortised arrangement fees, and the recognition of a new financial liability for the revised facility at fair value. Costs associated with the renegotiation of the facility have been expensed to the income statement as exceptional finance costs (refer note 4).

Going concern

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 Group to continue as a 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. See pages 34 and 35 in the Financial Review for further details.

Taxation

The Group's operations are subject to a number of specific tax 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 exceptional items, the Group applies the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

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

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group financial statements are presented in US dollars (US$), 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.

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.

Oil and gas assets

Exploration and appraisal assets

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially 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 written off as exploration and evaluation expenses 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. 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.

Development 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 – 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.

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.

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 tangible and intangible 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 of disposal 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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

2. Summary of significant accounting policies continued

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.

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 of disposal.

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

Financial assets

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

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

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

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

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

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

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

Financial assets at FVTPL, including commodity and foreign exchange derivatives, 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.

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.

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 other comprehensive income 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 other comprehensive income is transferred to profit and loss when the forecast transaction which was the subject of the hedge occurs.

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

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 within 'Remeasurements and exceptional items' profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's business performance results with a corresponding reclassification from 'Remeasurements and exceptional items'.

Option premium
Option premium received or paid for commodity derivatives are amortised into business performance revenue over the period between the inception of the option, and that options expiry date. This results in a corresponding reclassification from 'Remeasurements and exceptional items' revenue.

As noted above, where put options are designated as an effective hedge, the change in time value is recorded in finance costs. As the cost of a put option represents the initial time value of that option, option premium paid for put options which have been designated as effective hedges are amortised in business performance finance costs, with an offsetting reclassification from 'Remeasurements and exceptional items' finance costs.

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 profit or loss.

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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

2. Summary of significant accounting policies continued

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 profit or loss. IAS 39 Financial Instruments: Recognition and Measurement regards the terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms (including any fees paid net of fees received) discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instrument. The Group also considers qualitative factors in assessing whether a modified financial liability is 'substantially different' and where the modification is so fundamental, it accounts for this as an extinguishment of the original liability even though a quantitative analysis may indicate a less than 10% cash flow change.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised over the life of the facility.

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

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

Bonds

Bonds are measured on an amortised cost basis.

Leases

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

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased asset 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 and other operating income
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.

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

The Group uses various commodity derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include options, swaps and futures. Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in other comprehensive income and recognised in the income statement within revenue and other operating income when the underlying hedged transaction crystallises or is no longer expected to occur. All other commodity derivatives within the scope of IAS 39 are measured at fair value with changes in fair value recognised in the income statement within revenue and other operating income. The gain or loss from commodity derivatives accounted for at fair value through profit or loss are included within business performance when the derivative reaches maturity and the gain or loss is realised.

Remeasurements and 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 or 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.

The following items are routinely classified as Remeasurements and exceptional items ('exceptional'):
- Unrealised mark to market changes in the remeasurement of derivative contracts are included in exceptional profit or loss. This includes the recycling of realised amounts from exceptional items into Business Performance income when a derivative instrument matures, together with the recycling of option premium amortisation from exceptional to business performance as set out in the Derivatives policy above.
- Impairments and write-offs are deemed to be exceptional in nature. This includes impairments of tangible and intangible assets, and write offs of unsuccessful exploration. Other non-routine write offs/write downs, where deemed material, are also included in this category.
- The depletion of a fair value uplift to property, plant and equipment that arose from the merger accounting applied at the time of EnQuest's formation.

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
Eligible 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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

2. Summary of significant accounting policies continued

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, 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 Income Taxes 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 Operating Segments, 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 2016	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	485,609	108,215	–	593,824	204,299	798,123
Total Group revenue	**485,609**	**108,215**	**–**	**593,824**	**204,299**	**798,123**
Income/(expenses)						
Depreciation and depletion	(209,194)	(36,582)	(33)	(245,809)	–	(245,809)
Impairment reversal of investments	48	–	–	48	–	48
Exploration write offs and impairments	(776)	–	–	(776)	–	(776)
Loss on disposal of assets	(16,178)	–	–	(16,178)	–	(16,178)
Net impairment reversal/(charge) to oil and gas assets	167,838	(19,967)	–	147,871	–	147,871
Segment profit/(loss)	**216,658**	**(5,836)**	**(1,561)**	**209,261**	**135,818**	**345,079**
Other disclosures:						
Capital expenditure	**646,489**	**4,585**	**9**	**651,083**	**277**	**651,360**

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

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 charge to 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)
Net impairment reversal/(charge) to 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**

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 2016 US$'000	Year ended 31 December 2015 US$'000
Segment profit/(loss)	**209,261**	(1,377,611)
Finance income	**1,440**	964
Finance expense	**(129,275)**	(106,690)
Gains and losses on oil and foreign exchange derivatives	**135,818**	142,396
Profit/(loss) before tax	**217,244**	(1,340,941)

Revenue from three customers (2015: three customers) each exceed 10% of the Group's consolidated revenue and amounted respectively to US$321.0 million and US$85.7 million arising from sales of crude oil in the North Sea operating segment and US$89.9 million in the Malaysia operating segment (2015: US$257.7 million and US$170.2 million arising from sales of crude oil in the North Sea operating segment and US$101.6 million in Malaysia operating segment.

All of the Group's segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) are located in the United Kingdom except for US$128.1 million located in Malaysia (2015: US$177.3 million).

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

4. Remeasurements and exceptional items

Year ended 31 December 2016

US$'000	Fair value re-measurement (i)	Impairments & write-offs (ii)	Debt restructuring (iii)	Surplus lease provision (iv)	Loss on disposal (v)	Other (vi)	Total
Revenue and other operating income	(51,504)	–	–	–	–	–	(51,504)
Cost of sales	(1,584)	–	–	–	–	(1,264)	(2,848)
Exploration and evaluation expenses	–	(776)	–	–	–	–	(776)
Impairment reversal on investments	–	48	–	–	–	–	48
Net impairment reversal on oil and gas assets	–	147,871	–	–	–	–	147,871
Loss on disposal of intangible oil and gas assets	–	–	–	–	(16,178)	–	(16,178)
Other income	2,837	–	–	22,948	–	5,721	31,506
Other expenses	–	–	–	–	–	(118)	(118)
Finance costs	31,072	–	(38,115)	–	–	–	(7,043)
	(19,179)	**147,143**	**(38,115)**	**22,948**	**(16,178)**	**4,339**	**100,958**
Tax on items above	8,797	(67,037)	10,323	(9,179)	–	506	(56,590)
Change in tax rate(vii)	–	–	–	–	–	(29,483)	(29,483)
Increase in the carrying amount of deferred tax assets(viii)	–	–	–	–	–	48,817	48,817
	(10,382)	**80,106**	**(27,792)**	**13,769**	**(16,178)**	**24,179**	**63,702**

(i) Fair value remeasurements include unrealised mark to market movements on derivative contracts and other financial instruments, where the Group does not classify them as effective hedges. It also includes the impact of recycling realised gains and losses (including option premia) out of 'Remeasurements and exceptional items' and into 'Business performance' profit or loss. Refer to note 2 for further details on the Group's accounting policies for derivatives, and remeasurements and exceptional items

(ii) Impairments and write-offs include a net impairment reversal on tangible oil and gas assets totalling US$147.9 million (2015: impairment of US$1,225 million), together with a US$0.05 million reversal of impairments on the investment in Ascent Resources (2015: US$0.6 million impairment) and a US$0.8 million impairment/write off of unsuccessful exploration costs (2015: US$9.1 million impairment/write off). Further details on the tangible impairment are provided in notes 10 and 11.

(iii) The Group's restructuring was deemed to result in a substantial modification of the terms of the Group's credit facility (see note 19). In accordance with IAS 39, the Group has accounted for this substantial modification as an extinguishment of the liability for the original credit facility and the recognition of a new liability for the revised credit facility. This has resulted in US$15.0 million of unamortised costs associated with the previous credit facility being expensed on extinguishment. The costs of negotiating the modifications to the credit facility, totalling US$11.1 million, were expensed. In addition, a US$12.0 million restructuring fee, payable to the credit facility lenders by March 2018, has been expensed. These comprise an aggregate of US$38.1 million of debt restructuring costs (see note 6 for further details).

(iv) The Group has an agreement to hire the Stena Spey drilling vessel. At 31 December 2015, based on the drilling forecasts for 2016, it was expected that the vessel would not be fully utilised over this period and therefore a provision was recognised for unavoidable contracted costs of US$22.9 million. During the year ended 31 December 2016, following changes to the Group's drilling schedule, the contracted days were utilised in full and the provision of US$22.9 million was reversed. See note 22 for further details.

(v) During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for cash proceeds of US$1.5 million, resulting in a loss on disposal of US$16.2 million (refer to note 12). The losses on disposal in 2015 include a $2.3 million loss on the disposal of the Group's Norwegian exploration licence areas, and an $8.5 million loss on the disposal of Annan House.

(vi) 'Other' includes the US$1.3 million depreciation of the fair value uplift (2015: US$3.8 million). It also includes other 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. In 2016 it primarily includes a $3.4 million reversal of a provision for contingent consideration which was no longer required following the results of the Eagle well drilled during the year.

(vii) Finance Act 2016 enacted a change in the supplementary charge tax rate, reducing it from 20% to 10%, and a change to petroleum revenue tax rate, reducing it from 35% to 0%, both effective from 1 January 2016. Finance Act 2016 also enacted a reduction in the mainstream corporation tax rate reducing it from 18% to 17% with effect from 1 April 2020. The impact of these changes in tax rates in 2016 was a tax charge of US$29.5 million.

(viii) At the year end the recovery of deferred tax assets was reviewed which has led to a recognition of previously impaired tax losses totalling US$48.8 million (2015: impairment of tax losses of US$239.1 million). This write-back reflects the increase in value of the Group's assets following a partial recovery of oil prices.

Year ended 31 December 2015

US$'000	Fair value re-measurement	Impairments & write-offs	Surplus lease provision	Loss on disposal	Other	Total
Revenue and other operating income	1,932	–	–	–	–	1,932
Cost of sales	2,254	(13,598)	–	–	(3,786)	(15,130)
Exploration and evaluation expenses	–	(9,059)	–	–	–	(9,059)
Impairment reversal/(charge) to investments	–	(566)	–	–	–	(566)
Net impairment reversal/(charge) to oil and gas assets	–	(1,224,463)	–	–	–	(1,224,463)
Loss on disposal of land and buildings	–	–	–	(8,473)	–	(8,473)
Loss on disposal of intangible oil and gas assets	–	–	–	(2,264)	–	(2,264)
General and administration expenses	–	–	(3,611)	–	–	(3,611)
Other income	272	–	–	–	1,664	1,936
Other expenses	(30)	(4,350)	(22,948)	–	(2,307)	(29,635)
Finance costs	(49,769)	–	–	–	(328)	(50,097)
	(45,341)	**(1,252,036)**	**(26,559)**	**(10,737)**	**(4,757)**	**(1,339,430)**
Tax on items above	22,800	596,834	13,313	–	1,458	634,405
Change in tax rate	–	–	–	–	56,790	56,790
Increase in the carrying amount of deferred tax assets	–	–	–	–	(239,067)	(239,067)
	(22,541)	**(655,202)**	**(13,246)**	**(10,737)**	**(185,576)**	**(887,302)**

5. Revenue and expenses

(a) Revenue and other operating income

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Revenue from crude oil sales	**577,822**	634,338
Revenue from gas and condensate sales	**3,628**	1,917
Realised gains on oil derivative contracts (note 20(e))	**255,803**	261,170
Tariff revenue	**4,915**	6,581
Other operating revenue	**142**	8
Rental income	**7,317**	2,568
Business performance revenue	**849,627**	906,582
Unrealised gains and losses on oil derivative contracts* (note 20(e))	**(51,504)**	1,932
Total revenue and other operating income	**798,123**	908,514

* Unrealised gains and losses on oil derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional in the income statement (refer note 4).

(b) Cost of sales

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Cost of operations	**285,040**	333,755
Tariff and transportation expenses	**58,139**	69,053
Realised loss on foreign exchange derivative contracts(i) (note 20(e))	**66,898**	3,169
Change in lifting position	**4,656**	23,918
Crude oil inventory movement	**(1,830)**	4,612
Depletion of oil and gas assets (note 10)	**240,615**	298,901
Business performance cost of sales	**653,518**	733,408
Depletion of oil and gas assets (note 10)	**1,264**	3,786
Write down of inventory	**–**	13,598
Unrealised gains and losses on foreign exchange derivative contracts(ii) (note 20(e))	**1,584**	(2,254)
Total cost of sales	**656,366**	748,538

(i) The realised loss on foreign exchange derivative contracts comprises US$19.6 million for contracts related to operating expenditure and US$47.3 million for contracts related to capital expenditure (2015: gain of US$6.2 million related to operating expenditure and loss of US$9.4 million related to capital expenditure).
(ii) Unrealised gains and loss on foreign exchange derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional in the income statement (refer note 4).

(c) Exploration and evaluation expenses

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Unsuccessful exploration expenditure written off* (note 12)	**458**	7,205
Impairment charge* (note 12)	**318**	1,854
Pre-licence costs expensed	**68**	325
	844	9,384

* Disclosed as exceptional in the income statement (refer note 4).

(d) General and administration expenses

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Staff costs (note 5(g))	**86,773**	98,861
Depreciation (note 10)	**3,930**	7,017
Other general and administration costs	**32,355**	28,436
Recharge of costs to operations and joint venture partners	**(112,168)**	(116,332)
	10,890	17,982

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

5. Revenue and expenses continued

(e) Other income

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Net foreign exchange gains	51,867	15,030
Release of surplus lease provision*	22,948	–
Fair value movements on financial assets*	2,151	272
Change in provision for contingent consideration*	4,056	–
Decommissioning provision reduction*	1,627	–
Acquisition accounting adjustment*	694	1,146
Other income*	30	919
Other	69	–
	83,442	17,367

* Disclosed as exceptional in the income statement (refer note 4).

(f) Other expenses

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Change in deferred consideration*	–	2,307
Fair value movements on financial liabilities*	–	30
Write down of receivable*	118	4,350
Surplus lease provision*	–	22,948
Other	9	–
	127	29,635

* Disclosed as exceptional in the income statement (refer note 4).

(g) Staff costs

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Wages and salaries	47,089	50,471
Social security costs	4,458	5,569
Defined contribution pension costs	3,522	3,748
Expense of share-based payments (note 18)	8,452	5,701
Other staff costs	2,709	3,175
Total employee costs	66,230	68,664
Contractor costs	20,543	30,197
	86,773	98,861

The average number of persons employed by the Group during the year was 477 (2015: 475).

Details of remuneration, pension entitlement and incentive arrangements for each Director are set out in the Remuneration Report on pages 66 to 81.

(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 2016 US$'000	Year ended 31 December 2015 US$'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**515**	514
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**74**	112
Audit related assurance services (interim review)	**71**	67
Tax advisory services	**58**	50
Corporate finance services[i]	**312**	–
	515	229
	1,030	743

(i) Relates to the reporting accountant's report on the unaudited pro forma financial information in Company's prospectus for the placing and open offer (refer note 17).

6. Finance costs/income

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Finance costs:		
Loan interest payable	**50,789**	21,965
Bond interest payable	**59,689**	58,248
Unwinding of discount on decommissioning provisions (note 22)	**10,724**	17,034
Unwinding of discount on other provisions (note 22)	**3,173**	4,912
Unwinding of discount on financial liabilities (note 20(f))	**279**	323
Fair value loss on financial instruments at fair value through profit or loss (note 20(e))	**36,516**	70,022
Finance charges payable under finance leases	**–**	1
Amortisation of finance fees on loans and bonds	**5,910**	7,286
Other financial expenses	**10,501**	10,965
	177,581	190,756
Less: amounts capitalised to the cost of qualifying assets	**(55,349)**	(14,372)
Business performance finance expenses	**122,232**	176,384
Fair value loss on financial instruments at fair value through profit or loss (note 20(e))	**(31,072)**	49,769
Debt restructuring costs (note 4)	**38,115**	–
Unwinding of discount on other provisions	**–**	328
	129,275	226,481
Finance income:		
Bank interest receivable	**337**	287
Unwinding of discount on financial asset (note 20(f))	**1,017**	544
Other financial income	**86**	133
	1,440	964

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 2016

7. Income tax

(a) Income tax

The major components of income tax expense/(credit) are as follows:

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Current income tax		
Current income tax charge	–	(11)
Adjustments in respect of current income tax of previous years	–	320
Current overseas income tax		
Current income tax charge	11,269	11,898
Adjustments in respect of current income tax of previous years	(1,294)	(714)
Total current income tax	9,975	11,493
Deferred income tax		
Relating to origination and reversal of temporary differences	(4,756)	(511,356)
Adjustments in respect of changes in tax rates	29,483	(56,790)
Adjustments in respect of deferred income tax of previous years	3,021	(15,189)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	(7,511)	(12,663)
Adjustments in respect of deferred income tax of previous years	1,820	3,048
Total deferred income tax	22,057	(592,950)
Income tax expense/(credit) reported in profit or loss	32,032	(581,457)

(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 2016 US$'000	Year ended 31 December 2015 US$'000
Profit/(loss) before tax	217,244	(1,340,941)
Statutory rate of corporation tax in the UK of 40% (2015: 50%)	86,898	(670,471)
Supplementary corporation tax non-deductible expenditure	(11,390)	11,636
Non-deductible expenditure[(i)]	32,631	85,081
Non-deductible loss on disposals	4	3,116
Petroleum revenue tax (net of income tax benefit)[(ii)]	(3,702)	(83,070)
North Sea tax reliefs	(102,149)	(109,111)
Tax in respect of non-ring fence trade	27,653	3,482
Tax losses not recognised[(iii)]	(39,198)	242,124
Deferred tax rate changes	29,483	(56,790)
Adjustments in respect of prior years	3,547	(12,535)
Overseas tax rate differences	4,362	1,747
Share-based payments	3,154	3,288
Other differences	739	46
At the effective income tax rate of 15% (2015: 43%)	32,032	(581,457)

(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
(iii) Current year tax credit is the re-recognition of ring fence tax losses de-recognised in 2015 and the de-recognition of non-ring fence losses in 2016

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

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Deferred tax liability				
Accelerated capital allowances	**1,085,456**	1,012,416	**73,310**	(576,810)
Other temporary differences	**–**	171,025	**(36,850)**	(166,678)
	1,085,456	1,183,441		
Deferred tax asset				
Losses	**(1,060,036)**	(1,000,559)	**(59,477)**	77,535
Decommissioning liability	**(185,418)**	(234,309)	**48,891**	(30,813)
Other temporary differences	**(31,717)**	(27,900)	**(3,817)**	103,816
	(1,277,171)	(1,262,768)		
Deferred tax expense			**22,057**	(592,950)
Net deferred tax (assets)/liabilities	**(191,715)**	(79,327)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(206,742)**	(138,525)		
Deferred tax liabilities	**15,027**	59,198		
Net deferred tax (assets)/liabilities	**(191,715)**	(79,327)		

Reconciliation of net deferred tax assets/(liabilities)

	2016 US$'000	2015 US$'000
At 1 January	**79,327**	(476,340)
Tax income/(expense) during the period recognised in profit or loss	**(22,057)**	592,950
Tax income/(expense) during the period recognised in other comprehensive income	**134,177**	(37,283)
Deferred taxes acquired (note 29)	**268**	–
At 31 December	**191,715**	79,327

(d) Tax losses
The Group's deferred tax assets at 31 December 2016 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 2016 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 2017 to 2019 followed by US$70/bbl inflated at 2% per annum from 2020. The results of the impairment model demonstrated that it was appropriate to recognise a deferred tax asset on US$214.3 million (2015: US$478.1 million deferred tax asset not recognised) of the Group's UK ring fence corporate tax losses at 31 December 2016 based on expected future profitability. The recognised loss amount results in a deferred tax credit of US$85.7 million (2015: US$239.1 million) for the year in respect of losses and allowances that were previously not recognised as a deferred tax asset.

The Group has unused UK mainstream corporation tax losses of US$285.8 million (2015: US$36.1 million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

The Group realised a capital loss of US$3.3 million in the year to 31 December 2015 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$13.4 million (2015: CAD$13.4 million) 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 2017, and which arose following the change in control of the Stratic group in 2010.

During the year to 31 December 2015 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$0.05 million (2015: US$30.0 million) in Malaysia due to the uncertainty of recovery. In Egypt the tax losses of US$3.1 million expired upon closure of the Branch.

The Group has unused Malaysian income tax losses of US$3.1 million (2015: US$2.1 million) 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.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

7. Income tax continued

(e) Change in legislation

Finance Act 2016 enacted a change in the mainstream corporation tax rate, reducing it from 18% to 17% with effect from 1 April 2020. The impact of the change in tax rate in 2016 was a tax charge of US$0.7 million.

Finance Act 2016 also enacted a change in the supplementary charge tax rate, reducing it from 20% to 10% with effect from 1 January 2016 and a change to the petroleum revenue tax rate, reducing it from 35% to 0% with effect from 1 January 2016. The impact of the change in tax rate in 2016 was a tax charge of US$28.9 million.

(f) Factors affecting future tax charges

The draft Finance Bill 2017 contains proposed legislation in relation to the restriction of corporate interest deductions from 1 April 2017 and proposed legislation to restrict relief for mainstream corporate tax losses with effect from 1 April 2017. These changes are not yet substantively enacted and, as drafted, the proposed legislation does not impact North Sea ring fence activities and therefore the impact on the Group tax charge is expected to be minimal.

8. Earnings per share

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

Basic and diluted earnings per share are calculated as follows:

	Profit/(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016 US$'000	2015 US$'000	**2016 million**	2015 million	**2016 US$**	2015 US$
Basic	**185,212**	(759,484)	**815.3**	774.8	**0.227**	(0.980)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**24.6**	–	**(0.006)**	–
Diluted	**185,212**	(759,484)	**839.9**	774.8	**0.221**	(0.980)
Basic (excluding exceptional items)	**121,510**	127,817	**815.3**	774.8	**0.149**	0.165
Diluted (excluding exceptional items)	**121,510**	127,817	**839.9**	774.8	**0.145**	0.165

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2016 (2015: none). At 31 December 2016 there are no proposed dividends (2015: none).

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 2015	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 assets (note 12)	–	16,215	–	16,215
At 31 December 2015	**–**	**6,165,488**	**51,865**	**6,217,353**
Additions	–	629,654	2,857	632,511
Acquired (note 29)	–	40,695	–	40,695
Change in cost carry liabilities	–	26,042	–	26,042
Change in decommissioning provision	–	(34,423)	–	(34,423)
Change in cost recovery provision	–	(40,389)	–	(40,389)
Reclassification from intangible assets (note 12)	–	276	–	276
At 31 December 2016	**–**	**6,787,343**	**54,722**	**6,842,065**
Accumulated depletion and impairment:				
At 1 January 2015	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**
Charge for the year	–	241,879	3,930	245,809
Net impairment reversal for the year	–	(147,871)	–	(147,871)
At 31 December 2016	**–**	**3,846,028**	**32,591**	**3,878,619**
Net carrying amount:				
At 31 December 2016	**–**	**2,941,315**	**22,131**	**2,963,446**
At 31 December 2015	–	2,413,468	23,204	2,436,672
At 1 January 2015	59,827	3,208,328	11,584	3,279,739

During 2016 the Group acquired an additional 10.5% interest in the Kraken asset and an additional 15.15% interest in the West Don field, resulting in aggregate purchase consideration of US$40.7 million allocated to property, plant and equipment (refer note 29).

On 28 August 2015, the Group completed the sale and leaseback of its Aberdeen property, Annan House, for US$69.5 million, resulting in a loss on disposal of US$8.5 million recognised during the year ended 31 December 2015.

During the year ended 31 December 2016, a liability of US$26.6 million was recognised for the carry payable for the Kraken field following the finalisation of a reserve determination (note 22). The amount payable was dependent upon the dated Brent forward curve at the date of the reserve determination. During 2015, the previous provision of US$80.0 million was derecognised as, based on oil prices at 31 December 2015, no carry was expected to be payable. Change in carry liabilities also includes a US$0.5 million decrease in the liability (note 20(f)) for Malaysian assets (2015: increase of US$2.0 million).

During the year ended 31 December 2015, the Scolty/Crathes field received Field Development Plan ('FDP') approval and costs of US$16.1 million previously held within exploration assets were reclassified as a tangible oil and gas asset.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

10. Property, plant and equipment continued

Impairments to the Group's producing oil and gas assets and reversals of impairments are is set out in the table below:

	Impairment reversal/(charge)		Recoverable amount[iv]	
	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000	31 December 2016 US$'000	31 December 2015 US$'000
Central North Sea[i]	**(184,437)**	(620,865)	**296,989**	559,421
Northern North Sea[ii]	**352,275**	(595,785)	**848,628**	598,480
Malaysia[iii]	**(19,967)**	(7,813)	**39,748**	70,731
Net impairment reversal/(charge)	**147,871**	(1,224,463)		

(i) Amounts disclosed for Central North Sea include Alma/Galia and Alba. The impairment of Alma/Galia is primarily driven by the lower reservoir and well performance than had been estimated previously.
(ii) Northern North Sea includes Heather Broom, Thistle/Deveron and the Dons fields. The impairment reversals are attributable primarily to higher prices in the short term, and the impact of a deterioration in the GBP/USD exchange rate on the underlying costs of the assets.
(iii) The amounts disclosed for Malaysia relate to the Tanjong Baram field.
(iv) Recoverable amount has been determined on a fair value less costs of disposal basis (refer to note 11 for further details of methodology and assumptions used, and note 2 *Critical Accounting Estimates and Judgements* for information on significant estimates and judgements made in relation to impairments see impairment of oil and gas assets). The amounts disclosed above are in respect of assets where an impairment (or reversal) has been recorded. Assets which did not have any impairment or reversal are excluded from the amounts disclosed.

The net book value at 31 December 2016 includes US$1,536.6 million (2015: US$1,009.8 million) 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 2016 was US$55.3 million (2015: US$14.4 million) and relate to the Kraken and Scolty/Crathes development projects (2015: 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 6.2%.

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2016 was US$nil (2015: US$0.1 million) of oil and gas assets.

11. Goodwill

A summary of goodwill is presented below:

	2016 US$'000	2015 US$'000
Cost and net carrying amount		
At 1 January and 31 December	**189,317**	189,317

The goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Goodwill acquired through business combinations has been allocated to a single cash-generating unit ('CGU'), the UK Continental Shelf ('UKCS'), and this is therefore the lowest level at which 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 the 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 10% (2015: 8.5%). 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 recoverable amounts are:

- oil prices;
- currency exchange rates;
- 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 proven and probable (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 10%.

Sensitivity to changes in assumptions
The Group's value is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount 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 9% 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 13% 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$'000	Accumulated impairment US$'000	Net carrying amount US$'000
At 1 January 2015	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
Additions	18,849	–	18,849
Disposal of interests in licences	(17,644)	–	(17,644)
Write-off of relinquished licences previously impaired	(1,311)	1,311	–
Unsuccessful exploration expenditure written off	(458)	–	(458)
Change in decommissioning provision	3,649	–	3,649
Reclassified to tangible fixed assets (note 10)	(276)	–	(276)
Impairment charge for the year	–	(318)	(318)
At 31 December 2016	**229,524**	**(179,192)**	**50,332**

The additions in 2016 and the related change in decommissioning provision primarily relate to the Eagle well which was drilled during the year.

During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for US$1.5 million, realising a loss on disposal of US$16.2 million (note 4).

During the year ended 31 December 2015:
- the Group acquired an additional 10% working interest in the Scolty/Crathes field and, following FDP approval in October 2015, the total exploration costs of the field were reclassified to tangible oil and gas assets (note 10);
- the Group disposed of its 35% interest in the Norwegian licences PL758 and PL800 and its 50% interest in the PL760 and PL760B for US$2.1 million, resulting in a loss of US$2.3 million;
- the Group exited from its interest in Egypt and costs of US$5.0 million refunded were included within disposal of interests in licences;
- unsuccessful exploration costs of US$7.2 million were written off, primarily in relation to the Cairngorm and Elke licences; and
- the Group completed its withdrawal from SB307/308 blocks in Malaysia, for which the carrying value had been previously impaired during the year ended 31 December 2014.

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For the year ended 31 December 2016

13. Investments

	US$'000
Cost:	
At 1 January 2015, 31 December 2015 and 31 December 2016	**19,231**
Provision for impairment:	
At 1 January 2015	(18,542)
Impairment charge for the year	(566)
At 31 December 2015	(19,108)
Impairment reversal for the year	48
At 31 December 2016	**(19,060)**
Net carrying amount:	
At 31 December 2016	**171**
At 31 December 2015	123
At 1 January 2015	689

The investment relates to ordinary shares in Ascent Resources Plc ('Ascent') held since 2011. In November 2015, Ascent agreed a capital reorganisation whereby new shares were issued and the share capital was redenominated. 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 non-cash impairment reversal US$0.05 million in the year to 31 December 2016 (2015: impairment of US$0.6 million).

14. Inventories

	2016 US$'000	2015 US$'000
Crude oil	**13,199**	11,477
Well supplies	**61,786**	56,152
	74,985	67,629

15. Trade and other receivables

	2016 US$'000	2015 US$'000
Current		
Trade receivables	**44,363**	71,740
Joint venture receivables	**91,220**	110,792
Under-lift position	**11,886**	14,011
VAT receivable	**9,098**	16,838
Other receivables	**17,971**	26,246
	174,538	239,627
Prepayments and accrued income	**28,128**	112,246
	202,666	351,873

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 2016 no impairment provision for trade receivables was necessary (2015: nil).

Joint venture receivables relate to amounts billable to or recoverable from 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 2016 and 31 December 2015 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 2016 is restricted cash of US$6.6 million (2015: US$11.5 million). US$6.0 million of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2015: US$6.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

Cash and cash equivalents also include an amount of US$9.4 million held in a Malaysian bank account which can only be used to pay cash calls for the Tanjong Baram asset and amounts related to the Tanjong Baram project finance loan.

17. Share capital and premium

The movement in the share capital of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2016	802,660,757	61,249	52,184	113,433
Issuance of equity shares	356,738,114	22,093	79,535	101,628
Expenses of issue of equity shares	–	–	(6,422)	(6,422)
At 31 December 2016	**1,159,398,871**	**83,342**	**125,297**	**208,639**

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

On 21 November 2016, the Company completed a placing and open offer, pursuant to which 356,738,114 new Ordinary shares were issued at a price of £0.23 per share, generating gross aggregate proceeds of US$101.6 million. 233,858,061 of the new shares issued resulted from existing shareholders taking up their entitlement under the open offer to acquire four new Ordinary shares for every nine Ordinary shares previously held. There were no new issues of shares during 2015.

At 31 December 2016 there were 33,563,282 shares held by the Employee Benefit Trust (2015: 26,702,378): 10,739,486 shares were acquired on 21 November 2016 pursuant to the open offer with the remainder of the movement 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 typically based on the average share price from the three days preceding the date of grant.

The share-based payment expense recognised for each scheme was as follows:

	2016 US$'000	2015 US$'000
Deferred bonus share plan	**1,274**	1,095
Restricted share plan	**920**	879
Performance share plan	**4,378**	3,717
Sharesave plan	**93**	10
Executive director bonus awards	**1,787**	–
	8,452	5,701

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. Awards, both invested and matching, are forfeited if the employee leaves the Group before the awards vest.

The fair values of DBSP awards granted to employees during the year, based on quoted market prices at the date of grant, are set out below:

	2016	2015
Weighted average fair value per share	**32p**	39p

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18. Share-based payment plans continued

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

	2016 Number	2015 Number
Outstanding at 1 January	**2,554,269**	1,601,635
Granted during the year(i)	**1,256,836**	1,860,580
Exercised during the year	**(1,199,434)**	(859,568)
Forfeited during the year	**(103,645)**	(48,378)
Outstanding at 31 December	**2,508,026**	2,554,269

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the DBSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 263,790 additional share awards. The fair value of these awards of US$0.1 million will be expensed over the remaining vesting period of the original awards to which they relate.

There were no share awards exercisable at either 31 December 2016 or 2015.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 1.0 years (2015: 1.1 years).

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 values of RSP awards granted to employees during the year, based on quoted market prices at the date of grant, are set out below:

	2016	2015
Weighted average fair value per share	**32p**	39p

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

	2016 Number	2015 Number
Outstanding at 1 January	**5,815,692**	5,271,022
Granted during the year(i)	**8,526,792**	1,390,000
Exercised during the year	**(530,109)**	(767,124)
Forfeited during the year	**(1,248,056)**	(78,206)
Outstanding at 31 December	**12,564,319**	5,815,692
Exercisable at 31 December	**3,369,261**	3,021,061

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the RSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 1,164,647 additional share awards. The fair value of these awards of US$0.4 million will be expensed over the remaining vesting period of the original awards to which they relate.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 5.6 years (2015: 1.8 years).

Performance Share Plan ('PSP')

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted during the year had three sets of performance conditions associated with them. 50% of the award relates to Total Shareholder Return ('TSR') against a comparator group of 17 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 40% relates to production growth per share; and 10% relates to new 2P reserve additions 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 and allow for the effect of the TSR condition, a market-based performance condition. The fair values for awards granted during the year were as follows:

	2016	2015
Weighted average fair value per share	**8p**	39p

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

	2016 Number	2015 Number
Outstanding at 1 January	**20,348,024**	11,091,120
Granted during the year[(i)]	**47,934,689**	12,125,800
Exercised during the year	**(2,139,477)**	(1,346,663)
Forfeited during the year	**(5,119,913)**	(1,522,233)
Outstanding at 31 December	**61,023,323**	20,348,024
Exercisable at 31 December	**2,104,559**	1,178,512

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 5,343,888 additional share awards. The fair value of these awards of US$1.0 million will be expensed over the remaining vesting period of the original awards to which they relate.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 4.5 years (2015: 1.7 years).

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 granted during the year are shown below:

	2016	2015
Weighted average fair value per share	**4p**	6p

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

	2016 Number	2015 Number
Outstanding at 1 January	**6,949,242**	1,315,755
Granted during the year[(i)]	**10,823,513**	7,653,785
Exercised during the year	**(9,562)**	–
Forfeited during the year	**(5,105,761)**	(2,020,298)
Outstanding at 31 December	**12,657,432**	6,949,242

(i) On 21 November 2016, at its discretion, the Company increased the number of options receivable by participants in the Sharesave plan by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 1,098,593 additional share options. The exercise price of outstanding options was also reduced by multiplying by a factor of 0.91520291. The incremental fair value of these adjustments of US$0.1 million will be expensed over the remaining vesting period of the options to which they relate.

There were no share options exercisable at either 31 December 2016 or 2015.

The weighted average contractual life for the share options outstanding as at 31 December 2016 was 3.1 years (2015: 2.9 years).

Executive director bonus awards

As detailed in the Directors' Remuneration Report on page 69, 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. The number of shares receivable is determined by the Remuneration Committee based on the share price in effect on the 1st April following the end of the year to which the bonus relates.

The following table shows the movement in the number of share awards outstanding:

	2016 Number	2015 Number
Outstanding at 1 January	**1,164,804**	726,505
Granted during the year	**755,001**	438,299
Exercised during the year	**–**	–
Forfeited during the year	**–**	–
Outstanding at 31 December	**1,919,805**	1,164,804

At 31 December 2016, the total share awards outstanding include 726,505 shares in respect of bonuses from 2010 to 2013 which are yet to be settled by the Company. The Company expects to settle these awards, along with those which relate to the 2014 bonus, during the forthcoming financial year.

The fair value of the awards granted each year is equal to the one third portion of the previous year's bonus that has been deferred. For the awards granted in 2016 in respect of the 2015 annual bonus, the fair value per share was 24 pence, determined by reference to the quoted share price at the date of grant (2015: 35 pence).

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 0.6 years (2015: 0.5 years).

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19. Loans and borrowings

The Group's loans are carried at amortised cost as follows:

	2016			2015		
	Principal US$'000	Fees US$'000	Total US$'000	Principal US$'000	Fees US$'000	Total US$'000
Credit facility	**1,037,516**	**–**	**1,037,516**	902,277	(19,168)	883,109
Tanjong Baram project finance loan	**24,850**	**(690)**	**24,160**	35,000	(886)	34,114
Trade creditor loan	**40,000**	**–**	**40,000**	–	–	–
Total loans	**1,102,366**	**(690)**	**1,101,676**	937,277	(20,054)	917,223
Due within one year			**49,601**			10,150
Due after more than one year			**1,052,075**			907,073
Total loans			**1,101,676**			917,223

Credit facility

In October 2013, the Group entered into a six year US$1.7 billion multi-currency revolving credit facility (the 'RCF'), comprising of a committed amount of US$1.2 billion (subject to the level of reserves) with a further US$500 million available through an accordion structure. Interest on the revolving credit facility was payable at LIBOR plus a margin of 2.50% to 4.25%, dependent on specified covenant ratios.

On 21 November 2016, pursuant to the Restructuring the Group entered into an amended and restated credit agreement, which included the following terms:

- commitments split into a term facility of US$1.125 billion and a revolving facility of US$75 million (together the 'Credit Facility');
- maturity date extended to October 2021;
- amortisation profile amended, with 31 March 2018 the first scheduled amortisation date;
- borrowings subject to mandatory repayment out of excess cash flow (excluding amounts required for approved capital expenditure), assessed on a six monthly basis;
- borrowings up to US$890.7 million subject to interest at LIBOR plus a margin of 4.75%, paid in cash;
- borrowings in excess of US$890.7 million subject to interest at LIBOR plus a margin of 5.25%, paid in cash, with a further 3.75% interest accrued and added to the PIK amount on each 30 June and 31 December;
- Payment In Kind ('PIK') amount repayable at maturity and subject to 9% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December;
- accordion feature cancelled; and
- US$12 million waiver fee payable to lenders on 31 March 2018.

The Group has concluded that the above amendments to the RCF are a substantial modification, resulting in the previous loan carrying amount of US$1,002.3 million (US$1,017.3 million principal less unamortised issuance costs of US$15.0 million) being derecognised and a new loan of US$1,017.3 million being recognised at fair value. The difference of US$15.0 million, which equates to the unamortised fees of the previous loan, is recognised as loss on extinguishment (see debt restructuring costs, note 4). The US$12 million waiver fee along with US$11.1 million of advisers' fees are directly attributable to the modification of the RCF and have also been expensed as part of the loss on extinguishment (see note 4).

At 31 December 2016, the carrying amount of the Credit Facility in the balance sheet was US$1,037.5 million, comprising the loan principal drawn down of US$1,037.3 million, plus US$0.2 million of interest capitalised to the PIK amount (2015: US$883.1 million, being loan principal drawn down of US$902.3 million, less unamortised facility fees of US$19.2 million).

At 31 December 2016, after allowing for letter of credit utilisation of US$6.4 million, US$156.3 million remained available for drawdown under the Credit Facility.

Tanjong Baram project finance loan

During the year ended 31 December 2015, the Group entered a five year US$35 million loan facility in Malaysia. Interest is payable at USD LIBOR plus a margin of 2.25%.

Trade creditor loan

In October 2016, the Group borrowed US$40 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan, together with accrued interest at a rate of 7% per annum, is repayable in instalments in 2017 commencing on the earlier of 30 days after the date of first oil for the Kraken project and 30 June 2017. A bonus of up to US$1.7 million is payable at 31 December 2017 if the oil price is above US$75 per barrel in any period of 180 consecutive days between 1 October 2016 and 31 December 2017.

The bonus amount is accounted for as an embedded derivative, which had a valuation of US$nil at 31 December 2016.

The Group's bonds are carried at amortised cost as follows:

	2016			2015		
	Principal US$'000	Fees US$'000	Total US$'000	Principal US$'000	Fees US$'000	Total US$'000
High yield bond	**677,482**	**(10,460)**	**667,022**	650,000	(6,897)	643,103
Retail bond	**191,258**	**(2,541)**	**188,717**	229,688	(2,510)	227,178
Total bonds due after more than one year	**868,740**	**(13,001)**	**855,739**	879,688	(9,407)	870,281

High yield bond
In April 2014, the Group issued a US$650 million high yield bond with an originally scheduled maturity of 15 April 2022 and paying a 7% coupon semi-annually in April and October.

On 21 November 2016, the high yield bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new high yield notes continue to accrue a fixed coupon of 7% payable semi-annually in arrears but interest will only be payable in cash if during the six months prior to an interest payment date average dated Brent is equal to or above US$65 per barrel (the 'Cash Payment Condition'). If the Cash Payment Condition is not satisfied in respect of an interest payment date, the interest due is not paid in cash and is capitalised and satisfied by the issue of additional high yield notes. US$27.5 million of accrued, unpaid interest as at the restructuring date was capitalised and added to the principal amount of the new high yield notes issued pursuant to the scheme. The Company has the option to extend the maturity date of the new high yield notes to 15 April 2023. Further, the maturity date of the new high yield notes will be automatically extended to 15 October 2023 if the Credit Facility is not repaid or refinanced in full prior to 15 October 2020.

The amendments to the high yield bond are not deemed to be a substantial modification and therefore US$5.0 million of advisers' fees directly attributable to the modification of the high yield bond have been adjusted against the carrying value of the bond and will be amortised over bond's remaining term.

The fair value of the high yield bond was estimated to be US$488.0 million. The price quoted for the retail bond was used to estimate the fair value of the retail bond, on the basis that since the restructuring, both bonds carry similar rights.

Retail bond
In 2013 the Group issued a £155 million retail bond with an originally scheduled maturity of 15 February 2022 and paying a 5.5% coupon semi-annually in February and August. For the interest period commencing 15 August 2016, in accordance with the terms of the bond, the rate of interest increased to 7% following the determination of the Company's leverage ratio at 31 December 2015.

On 21 November 2016, the retail bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new retail notes continue to accrue a fixed coupon of 7% payable semi-annually in arrears but interest will only be payable in cash if during the six months prior to an interest payment date average dated Brent is equal to or above US$65 per barrel (the 'Cash Payment Condition'). If the Cash Payment Condition is not satisfied in respect of an interest payment date, the interest due is not paid in cash and is capitalised and satisfied by the issue of additional retail notes. The maturity of the new retail notes was extended to 15 April 2022 and the Company has the option to extend the maturity date to 15 April 2023. Further, the maturity date of the new retail notes will be automatically extended to 15 October 2023 if the Credit Facility is not repaid or refinanced in full prior to 15 October 2020.

The amendments to the retail bond are not deemed to be a substantial modification and therefore US$0.8 million of advisers' fees directly attributable to the modification of the high yield bond have been adjusted against the carrying value of the bond and will be amortised over bond's remaining term.

The bond had a fair value of US$138.7 million (2015: US$95.5 million). 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.

20. Other financial assets and financial liabilities

(a) Summary

	2016		2015	
	Assets US$'000	**Liabilities US$'000**	Assets US$'000	Liabilities US$'000
Commodity contracts designated as cash flow hedge (at fair value through OCI)	–	–	214,499	–
Commodity contracts (at fair value through profit or loss)	**2,973**	**34,548**	36,511	–
Foreign exchange contracts designated as cash flow hedges (at fair value through OCI)	–	–	–	1,023
Foreign exchange contracts (at fair value through profit or loss)	–	**9,726**	–	8,143
Interest rate swap designated as cash flow hedge (at fair value through OCI)	**41**	–	47	–
Other receivables (loans and receivables)	**36,328**	–	7,635	–
Other liabilities (at amortised cost)	–	–	–	3
Total current	**39,342**	**44,274**	258,692	9,169
Other receivables (loans and receivables)	**23,429**	–	15,262	–
Other liabilities (at amortised cost)	–	**19,767**	–	7,684
Total non-current	**23,429**	**19,767**	15,262	7,684

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

20. Other financial assets and financial liabilities continued

(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 8 million barrels of 2016 production (2015: 10 million barrels), was hedged via the purchase of put options, with a strike price of US$68/bbl (2015: US$65/bbl). Gains totalling US$193.2 million (2015: US$127.8 million) were included in realised revenue in the income statement in respect of these matured options. In addition, gains deferred in the prior year on the early close-out of effective hedges totalling US$2.5 million (2015: US$116.6 million) were recognised in realised revenue.

Mark to market losses on the time value element of these put options, totalling US$5.4 million (2015: US$119.8 million) have been recognised in finance costs. Of this amount, US$36.5 million (2015: US$70.0 million) 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 credit/charge in line with the Group's accounting policy.

In addition, fixed price oil swap contracts in respect of 2 million barrels of 2016 production, with a fixed price of $66.64/bbl, were designated as effective hedges at 31 December 2015. Gains totalling US$43.9 million were realised during 2016 in respect of these contracts, together with an unrealised gain of US$5.8 million recognised as an exceptional item in the income statement.

There were no derivative oil contracts designated as effective hedges as at 31 December 2016.

Commodity derivative contracts at fair value through profit or 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 2016, losses totalling US$35.3 million (2015: gains of US$19.6 million) were recognised in respect of commodity contracts designated as FVTPL. This included gains totalling US$16.2 million (2015: losses of US$94.8 million) realised on contracts that matured during the year, and mark to market losses totalling US$51.5 million (2015: gains of US$114.4 million). Of the realised amounts recognised during the year, US$31.2 million (2015: US$111.6 million) 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.

Business performance revenue for the year ended 31 December 2015 included US$10.4 million 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$1.4 million, 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 2016 was a loss of US$40.5 million in respect of fixed price swap contracts for 5,998,000 barrels of 2017 production at a weighted average price of US$51.34/bbl. The mark to market position on the Group's other commodity derivative contracts (including contracts to purchase crude oil for trading purposes which are accounted for as a derivative), was an asset of US$8.9 million.

(c) Foreign currency contracts

During the year ended 31 December 2015, the Group entered into various forward currency contracts to hedge its exposure in 2016 to operating and capital expenditure in Sterling, Euros and Norwegian Kroner. These contracts resulted a realised loss of US$66.9 million and an unrealised gain of US$7.7 million recognised in the income statement for the year ended 31 December 2016 (2015: similar contracts resulted in a realised loss of US$3.2 million and an unrealised gain of US$2.3 million).

During the year ended 31 December 2016, the Group entered into a structure covering the first half of 2017: the counterparty can elect to sell £47.5 million to EnQuest at an exchange rate of US$1.4:£1 or purchase 1.3 million barrels of oil at US$58 per barrel. Based on oil prices and exchange rates at 31 December 2016, the counterparty would choose to exchange currency, therefore this contract has been presented with other foreign currency contracts. The contract resulted in an unrealised loss of US$9.3 million for the year ended 31 December 2016.

(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$0.04 million (2015: US$0.05 million). The impact on the income statement is US$0.06 million (2015: US$0.03 million) recognised within finance expenses.

(e) Income statement impact

The income/(expense) recognised for commodity, currency and interest rate derivatives are as follows:

Year ended 31 December 2016	Revenue and other operating income		Cost of sales		Finance costs	
	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'000
Call options	**27,916**	**(16,654)**	**–**	**–**	**–**	**–**
Put options	**195,701**	**–**	**–**	**–**	**(36,458)**	**31,072**
Commodity swaps	**31,084**	**(37,823)**	**–**	**–**	**–**	**–**
Futures	**426**	**146**	**–**	**–**	**–**	**–**
Purchase and sale of crude oil	**676**	**2,827**	**–**	**–**	**–**	**–**
Foreign exchange swap contracts	**–**	**–**	**(1,034)**	**–**	**–**	**–**
Other forward currency contracts	**–**	**–**	**(65,865)**	**(1,584)**	**–**	**–**
Interest rate swap	**–**	**–**	**–**	**–**	**(58)**	**–**
	255,803	**(51,504)**	**(66,899)**	**(1,584)**	**(36,516)**	**31,072**

Year ended 31 December 2015	Revenue and other operating income		Cost of sales		Finance costs	
	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'000	Realised US$'000	Unrealised US$'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)

(f) Other receivables and liabilities

	Other receivables US$'000	Other liabilities US$'000
At 1 January 2015	22,103	71,878
Additions during the year	433	1,985
Change in fair value	(161)	–
Utilised during the year	–	(66,502)
Unwinding of discount	544	323
Foreign exchange	(22)	–
At 31 December 2015	22,897	7,684
Additions during the year	42,878	12,379
Change in fair value	2,151	(575)
Utilised during the year	(9,058)	–
Unwinding of discount	1,017	279
Foreign exchange	(128)	–
At 31 December 2016	**59,757**	**19,767**
Comprised of:		
Financial carry	–	7,388
Accrued waiver fee	–	12,000
KUFPEC receivable	13,968	–
BUMI receivable	43,517	–
Convertible loan note	2,272	–
Other	–	379
Total	**59,757**	**19,767**
Classified as:		
Current	36,328	–
Non-current	23,429	19,767
	59,757	**19,767**

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

20. Other financial assets and financial liabilities continued

Other receivables

As part of the 2012 farm-out to the Kuwait Foreign Petroleum Exploration Company ('KUFPEC') of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of US$23.3 million over a 36 month period after Alma/Galia is deemed to be fully operational. US$9.1 million was received during the year ended 31 December 2016 and the remaining receivable, discounted to present value, had a carrying value of US$14.0 million at 31 December 2016 (2015: US$22.6 million). Unwinding of discount of US$0.4 million is included within finance income for the year ended 31 December 2016 (2015: US$0.5 million).

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund US$65 million (EnQuest's share being U$45.8 million) of a US$100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable in instalments, with US$38 million receivable between February 2017 and February 2018, and the balance payable over a two-year period commencing three months after the date of first production from the Kraken field. Included within other receivables at 31 December 2016 is an amount of US$43.5 million representing the discounted value of EnQuest's share of these repayments.

Other receivables include US$2.3 million (31 December 2015: US$0.2 million) representing the fair value of a convertible loan note from Ascent.

Other liabilities

As part of the agreement to acquire the PM8 asset in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of US$7.4 million has been disclosed as a financial liability (2015: US$7.7 million). Unwinding of the discount of US$0.3 million is included within finance expense for the year ended 31 December 2016 (2015: US$0.3 million).

In addition, included in other liabilities is an accrued waiver fee payable to the Credit Facility lenders in relation to the restructuring of the facility in November 2016 (see note 19). The amount is payable by March 2018.

The fair value of the Group's oil price related embedded derivatives is US$nil (2015: US$0.03 million).

21. Fair value measurement

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

31 December 2016:

	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 derivative contracts(i)	2,973	–	2,973	–
Interest rate swap(ii)	41	–	41	–
Other financial assets				
Available-for-sale financial investments				
Quoted equity shares	171	171	–	–
Loans and receivables				
Other receivables(i)	2,270	–	2,270	–
Liabilities measured at fair value:				
Derivative financial liabilities				
Commodity derivative contracts(i)	34,548	–	34,548	–
Foreign currency derivative contracts(ii)	9,726	–	9,726	–
Liabilities for which fair values are disclosed *(notes 19 and 24):*				
Interest bearing loans and borrowings	1,102,366	–	–	1,102,366
Obligations under finance leases	–	–	–	–
Sterling retail bond	138,727	138,727	–	–
High yield bond	491,405	–	491,405	–

(i) Valued using readily available information in the public markets and quotations provided by brokers and price index developers.
(ii) Valued by the counterparties, with the valuations reviewed internally and corroborated with market data.

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

31 December 2015:

	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	251,009	–	251,009	–
Interest rate swap	47	–	47	–
Other financial assets				
Available-for-sale financial investments				
Quoted equity shares	123	123	–	–
Loans and receivables				
Other receivables	22,897	250	–	22,647
Liabilities measured at fair value:				
Derivative financial liabilities				
Forward foreign currency contracts	9,165	–	9,165	–
Other liability				
Other liabilities	7,687	–	30	7,657
Liabilities for which fair values are disclosed (notes 19 and 24):				
Interest bearing loans and borrowings	917,223	–	917,223	–
Obligations under finance leases	36	–	36	–
Sterling retail bond	95,508	–	95,508	–
High yield bond	651,120	–	651,120	–

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 2015	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
Additions during the year	44,454	–	–	–	–	44,454
Acquisitions (note 29)	15,153	–	–	–	–	15,153
Changes in estimates	(76,855)	26,591	(40,389)	(4,056)	(22,604)	(117,313)
Unwinding of discount	10,724	–	2,797	367	9	13,897
Utilisation	(6,355)	(21,100)	–	–	(421)	(27,876)
Foreign exchange	–	–	–	–	(585)	(585)
At 31 December 2016	**493,891**	**5,491**	**89,529**	**22,580**	**2,816**	**614,307**
Classified as						
Current	9,701	5,491	5,433	9,056	360	30,041
Non-current	484,190	–	84,096	13,524	2,456	584,266
	493,891	**5,491**	**89,529**	**22,580**	**2,816**	**614,307**

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 2033 assuming no further development of the Group's assets. The liability is discounted at a rate of 2.25% (2015: 3.0%). The unwinding of the discount is classified as a finance cost (note 6).

Acquisitions during the year ended 31 December 2016 in relation to the additional interests in the Kraken and West Don fields acquired during the year were US$7.5 million and US$7.6 million, respectively (refer note 29).

Notes to the Group Financial Statements continued
For the year ended 31 December 2016

22. Provisions continued
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.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities expiring in December 2016 were renewed for 12 months pursuant to the Restructuring, with surety bond providers committing to renew for a further 12 months upon their expiry in 2017 subject to on-going compliance with the terms of the Group's borrowings. At 31 December 2016, the Group held surety bonds totalling US$118.5 million.

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 took place in 2016. At 31 December 2015, due to the low oil price environment, management's view was that no carry would be payable. When the reserve determination was finalised in 2016, the subsequent increase in oil price resulted in a carry amount of US$26.6 million becoming due under the arrangement. As at 31 December 2016, US$21.1 million of the carry had been paid and a liability for the remaining US$5.5 million is recognised on the balance sheet. The development carry amount payable was adjusted through the carrying value of the Kraken field in property, plant and equipment (note 10).

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 2016 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 2.25% (2015: 3.0%).

Contingent consideration
As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes FDP approval and 'first oil'. EnQuest paid US$3.0 million in November 2015, following FDP approval in October 2015. US$9.0 million is due on the later of first oil or 31 March 2017 and US$8.0 million is 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 US$75 per barrel on a linear basis up to US$100 per barrel, up to a cap of US$20.0 million. The cash flows have been discounted using a 3% discount rate. An option model has been used to value the element of the consideration that is contingent on the oil price and has resulted in a credit to the income statement of US$0.7 million for the year ended 31 December 2016 (2015: nil). The carrying value of the Scolty/Crathes contingent consideration at 31 December 2016 is US$17.3 million (31 December 2015: US$17.6 million).

In addition, there is consideration due subject to future exploration success. The provision at 31 December 2015 relating to this was US$8.7 million and this has been reassessed for the year ended 31 December 2016 to US$5.3 million. The reduction of US$3.4 million, which has been released to the income statement, related to the results of the Eagle well drilled during the year, which indicate that no deferred consideration would be due on this prospect.

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 2.25% discount rate. At 31 December 2016, the provision was US$2.8 million (2015 US$3.5 million).

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. As at 31 December 2015, the vessel was not expected to be fully utilised over the contract period and a provision was recognised for the unavoidable costs of US$22.9 million. Based on the actual vessel utilisation, the provision was reversed in full to the income statement during the year ended 31 December 2016.

23. Trade and other payables

	2016 US$'000	2015 US$'000
Trade payables	**232,277**	230,475
Accrued expenses	**183,753**	274,436
Over-lift position	**35,058**	35,797
Joint venture creditors	**456**	765
Other payables	**1,304**	2,045
	452,848	543,518
Classified as:		
Current	**410,261**	543,518
Non-current	**42,587**	–
	452,848	543,518

Trade payables are normally non-interest bearing and settled on terms of between 10 and 30 days. The Group has arrangements with various suppliers to defer payment of a proportion of its capital spend. The majority of these deferred payments fall due in 2017 and the balance is expected to be fully settled by early 2019.

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:

	2016 US$'000	2015 US$'000
Not later than one year	**4,296**	5,694
After one year but not more than five years	**17,412**	20,926
Over five years	**62,990**	85,631
	84,698	112,251

Lease payments recognised as an operating lease expense during the year amounted to US$4.8 million (2015: US$4.1 million).

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$9.4 million (2015: US$8.4 million).

(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:

	2016 US$'000	2015 US$'000
Not later than one year	**202**	150
After one year but not more than five years	**5,877**	5,242
Over five years	**5,869**	9,098
	11,948	14,490

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

24. Commitments and contingencies continued

(iii) Finance lease commitments

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

	2016 Minimum payments US$'000	2016 Present value of payments US$'000	2015 Minimum payments US$'000	2015 Present value of payments US$'000
Due in less than one year	–	–	37	36
Due in more than one year but not more than five years	–	–	–	–
	–	–	37	36
Less future financing charges	–	–	(1)	–
	–	–	36	36

Finance leases with an effective borrowing rate of 2.37% (2015: 2.37%) were repaid during the year.

On 20 December 2013, the Group entered into a bareboat charter with Armada Kraken PTE Limited ('BUMI') 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 in H1 2017. BUMI have constructed the vessel and the Group made an initial prepayment of US$100.0 million during 2014. In August 2016 it was agreed that US$65.0 million of this prepayment would be refunded (refer note 20(f)).

(iv) Capital commitments

At 31 December 2016, the Group had capital commitments excluding the above lease commitments amounting to US$267.3 million (2015: US$433.5 million).

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. Other than as discussed below, the Company is not, nor has been during the past 12 months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on the Company's and/or the Group's financial position or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

The Group is currently engaged in a dispute with KUFPEC, the Group's field partner in respect of Alma/Galia. KUFPEC has commenced a court action in the High Court of Justice claiming an alleged breach of one of the Group's warranties provided under the Alma/Galia Farm-in Agreement and seeking damages of US$91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are currently stayed as the parties attempt to resolve the disputed issues. In the event that no agreement is reached and the court proceedings are recommenced, the Directors believe that a considerable period will elapse before any decision is reached by the courts.

The Directors consider the merits of the claim to be poor and the Group intends to defend itself vigorously. The Group has not made any provisions in respect of this claim as the Directors believe the claim is unlikely to be successful; and in any event the Directors believe the chances of an outcome exposing the Group to material damages are remote. There can, however, be no assurances that this claim will not ultimately be successful, or that the Group would not otherwise seek to enter into a settlement or compromise in respect of this claim, or that in the event of any such circumstances the Group would not incur costs and expenses in excess of its estimates.

The Group is also currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately US$20.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. No formal court action has been commenced or threatened by EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

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. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2016 (2015: none).

Share subscription

Subscription for new Ordinary shares pursuant to the placing and open offer (note 17) at the issue price of £0.23 per share:

- Double A Limited ('Double A'), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the open offer, subscribing for 31,735,702 shares;
- directors and key management personnel took up their entitlement in the open offer, subscribing for 423,540 new Ordinary shares;
- key management personnel participated in the placing, subscribing for 412,608 new Ordinary shares; and
- close family members of Amjad Bseisu and their associated undertakings participated in the placing, subscribing for 2,940,304 new Ordinary shares.

Commission related to the placing
Double A made a commitment to subscribe for up to 91,224,079 new Ordinary shares under the placing (subject to clawback to satisfy valid applications under the open offer). In consideration of Double A's commitment, the Company agreed to pay Double A commission equal to 1% of the product of (i) the number of new Ordinary shares which are subsequently clawed back following completion of the open offer and (ii) the issue price (the 'Commission'). The Commission is consistent with those paid in respect of other participants in the placing. The Commission of US$0.2 million due to Double A was outstanding as at 31 December 2016 and settled subsequently.

Office sublease
During the year ended 31 December 2016, the Group recognised US$0.1 million of rental income in respect of an office sublease arrangement with AA Capital Analysts Limited, a company whose majority controlling shareholder is Double A.

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:

	2016 US$'000	2015 US$'000
Short-term employee benefits	**5,002**	4,521
Share-based payments	**3,770**	1,896
Post-employment pension benefits	**33**	37
	8,805	6,454

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 2016 and 2015 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 2016, are disclosed in note 20.

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 (primarily fixed price swaps over a total of 6.0 million barrels as at 31 December 2016), with all other variables held constant. As the derivatives on hand at 31 December 2016 have not been designated as hedges, there is no impact on equity.

	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 2016	**(58,000)**	**60,000**	**–**	**–**
31 December 2015	(10,000)	10,000	(55,000)	55,000

Foreign currency risk
The Group is exposed to foreign current risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency (US Dollars) 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% (2015: 1%) of the Group's sales and 81% (2015: 85%) of costs (including capital expenditure) are denominated in currencies other than the functional currency.

As at 31 December 2016, the Group's only foreign currency hedging in place was a NOK37.1 forward contract with a strike price of NOK8.61/£1 which matures in Q1 2017. In addition, the Group had entered into a 'chooser' option in June 2016, hedging either 1.3MMbbls of H1 2017 production at $58/bbl or GBP47.5 million of H1 GBP exposure at a fixed rate of $1.40/GBP. The counterparty has the right to choose whether to settle the oil price hedge or the currency hedge each month. A further chooser option was entered into in January 2017, hedging either 1.5MMbbls at $60/bbl or GBP66.0 million at a fixed rate of $1.1975/GBP.

The Group also enters into foreign currency swap contracts from time to time to manage short term exposures.

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

26. Risk management and financial instruments continued

The following table summarises the sensitivity to a reasonably possible change in the US 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 US Dollar rate	**Year ended 31 December 2016 US$'000**	Year ended 31 December 2015 US$'000
+10%	**(48,250)**	(58,173)
-10%	**48,250**	58,173

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 2016 there were US$5.6 million of trade receivables past due (2015: nil), US$8.6 million of joint venture receivables past due (2014: US$1.5 million) and nil (2014: US$2.0 million) of other receivables past due but not impaired. Subsequent to year-end, US$10.9 million of these outstanding balances have been collected. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	**2016 US$'000**	2015 US$'000
Less than 30 days	**6,101**	709
30–60 days	**–**	–
60–90 days	**–**	–
90–120 days	**656**	–
120+ days	**7,473**	771
	14,230	1,480

At 31 December 2016, the Group had three customers accounting for 90% of outstanding trade receivables (2015: three customers, 65%) and five joint venture partners accounting for 90% of joint venture receivables (2015: five joint venture partners, 77%).

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 its borrowings. 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.

On 21 November 2016, the Company concluded a comprehensive financial restructuring comprising: amendments to the credit facility, high yield bond and retail bond; renewal of surety bond facilities; and a placing and open offer (the 'Restructuring'). The terms of the Restructuring are set out further in notes 17 and 19. The Restructuring was designed to provide the Group with a stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity. In particular, the Restructuring is expected to enable the Group to complete the Kraken and Scolty/Crathes developments. At 31 December 2016, US$156.3 million was available for draw down under the Group's Credit Facility (see note 19).

The following tables detail the maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis and include future interest payments.

Year ended 31 December 2016	**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	**–**	**122,590**	**260,017**	**960,880**	**–**	**1,343,487**
Bonds[(i)]	**–**	**56,069**	**60,812**	**182,435**	**901,377**	**1,200,693**
Trade and other payables	**258,828**	**136,564**	**45,378**	**–**	**–**	**440,770**
Other financial liabilities	**–**	**–**	**7,641**	**–**	**–**	**7,641**
	258,828	**315,223**	**373,848**	**1,143,315**	**901,377**	**2,992,591**

(i) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than US$65 per barrel for the six months preceding the coupon payment date (see note 19).

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
Bonds	–	58,140	58,140	174,419	955,223	1,245,922
Obligations under finance leases	–	37	–	–	–	37
Trade and other payables	543,518	–	–	–	–	543,518
Other financial liabilities	–	–	8,250	–	–	8,250
	543,518	110,219	122,856	1,130,941	955,223	2,862,757

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. When the amount receivable or payable is not fixed, the amount disclosed has been determined by reference to a projected forward curve at the reporting date.

Year ended 31 December 2016	**On demand US$'000**	**Less than 3 months US$'000**	**3 to 12 months US$'000**	**1 to 2 years US$'000**	**Over 2 years US$'000**	**Total US$'000**
Commodity derivative contracts	**146**	**(10,626)**	**(27,419)**	**–**	**–**	**(37,899)**
Foreign exchange forward contracts	**–**	**(4,741)**	**–**	**–**	**–**	**(4,741)**
Foreign exchange forward contracts	**–**	**4,308**	**–**	**–**	**–**	**4,308**
Chooser contract	**–**	**(3,711)**	**(3,711)**	**–**	**–**	**(7,422)**
Interest rate swaps	**–**	**1**	**3**	**2**	**–**	**6**
	146	**(14,769)**	**(31,127)**	**2**	**–**	**(45,748)**

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	Over 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

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 100.

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 while 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. On 21 November 2016, the Group completed a comprehensive package of financial restructuring measures, refer notes 17 and 19 for further details.

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 one, 60% in year two and 50% in year three. This is designed to reduce 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:

	2016 US$'000	2015 US$'000
Loans, borrowings and bond(i) (A)	**1,971,106**	1,816,965
Cash and short term deposits	**(174,634)**	(269,049)
Net debt/(cash) (B)	**1,796,472**	1,547,916
Equity attributable to EnQuest PLC shareholders (C)	**818,852**	667,199
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**185,212**	(759,484)
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**121,510**	127,817
Gross gearing ratio (A/C)	**2.4**	2.7
Net gearing ratio (B/C)	**2.2**	2.3
Shareholders' return on investment (D/C)	**23%**	(114%)
Shareholders' return on investment excluding exceptionals (E/C)	**15%**	19%

(i) Principal amounts drawn, excludes netting off of fees (refer note 19)

Notes to the Group Financial Statements continued

For the year ended 31 December 2016

27. Post balance sheet events

On 24 January 2017, EnQuest announced that it had agreed to acquire from BP an initial 25% interest in the Magnus oil field ('Magnus') representing c.15.9 MMboe of additional net 2P reserves (gross reserves of 63.4 MMboe) with net production of 4.2 Mboepd in 2016 (gross production 16.6 Mboepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT'), 9.0% of Northern Leg Gas Pipeline ('NLGP'), and 3.8% of Ninian Pipeline System ('NPS') (collectively the 'Transaction Assets'). EnQuest currently has existing interests of 3.0% in SVT, 5.9% in NLGP and 2.7% in NPS.

EnQuest will become the operator of the Transaction Assets; the transaction is subject to certain regulatory, government authority, counterparty and partner consents.

The consideration for these interests is US$85.0 million (subject to working capital and other adjustments), which will be funded by deferred consideration payable from the cash flow of the Transaction Assets. There are no requirements for cash from EnQuest other than as generated from the Transaction Assets. In addition, EnQuest has an option to acquire the remaining 75% of Magnus and BP's interest in the associated infrastructure. EnQuest also has the option to receive US$50 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 6% of the gross decommissioning costs of Thistle and Deveron fields.

28. Subsidiaries

At 31 December 2016, 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[1]	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)[2]	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[3]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited (i)[4]	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%
EQ Petroleum Developments Malaysia SDN. BHD (i)	Exploration, extraction and production of hydrocarbons	Malaysia	100%

(i) Held by subsidiary undertaking.

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9, Canada
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, AB11 5QP, United Kingdom
4 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
5 c/o TMF, 10th Floor, Menara Hap Seng, No 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

29. Acquisition of interests in joint arrangements

The net assets acquired during the year were recognised as follows:

	15.15% interest in West Don US$'000	10.5% interest in Kraken US$'000	Total US$'000
Property, plant and equipment (note 10)	7,096	33,599	40,695
Prepayments and accrued income	–	10,500	10,500
Under-lift position	3,271	–	3,271
Deferred tax asset (note 7)	268	–	268
Accrued expenses	(538)	(31,581)	(32,119)
Provision for decommissioning (note 22)	(7,633)	(7,520)	(15,153)
Net identifiable assets	**2,464**	**4,998**	**7,462**

Kraken

In February 2016, the Group acquired an additional 10.5% interest in the Kraken development asset from First Oil PLC ('First Oil') for nominal consideration. As a result, EnQuest's working interest in this joint arrangement increased to 70.5%. EnQuest also waived its right to reclaim its US$5.0 million share of cash calls paid on behalf of First Oil in January and February 2016. Although the asset has proven 2P reserves, as the field is yet to achieve first oil and the necessary infrastructure to produce oil and generate revenues is not yet in place, the Group does not consider that the activity of this joint arrangement constitutes a business, as defined by IFRS 3, and therefore the Group has recognised the individual identifiable assets acquired and liabilities assumed, with their cost allocated based on their relative fair values as shown above.

West Don

In August 2016, the Group acquired an additional 15.15% interest in the West Don producing field from First Oil, resulting in a revised working interest of 78.6% in this joint arrangement. As the asset has proven 2P reserves and is currently in production and generating revenues, the Group considers that the activity of this joint arrangement constitutes a business and therefore the Group has applied the principles of business combinations accounting from IFRS 3 to the acquisition of the additional interest.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above. The consideration of US$2.5 million, which was satisfied through a reduction of receivable balances, equalled the fair value of identifiable assets acquired and liabilities assumed and therefore no goodwill arose on the acquisition.

The additional interest in the West Don joint arrangement contributed US$2.7 million revenue and a US$0.9 million loss to the Group's profit for the period between the date of the acquisition and the balance sheet date. If this acquisition had been completed on the first day of the financial year, US$6.0 million revenue and a US$1.5 million loss would have been contributed to the Group's profit for the year ended 31 December 2016.

30. Cash generated from operations

	Notes	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Profit/(loss) before tax		**217,244**	(1,340,941)
Depreciation	5(d)	**3,930**	7,017
Depletion	5(b)	**241,879**	302,687
Exploration costs impaired and written off	5(c)	**776**	9,059
Net impairment (reversal)/charge to oil and gas assets	4	**(147,871)**	1,224,463
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	**16,178**	2,264
Impairment (reversal)/charge to investments	4	**(48)**	566
Share-based payment charge	5(g)	**8,452**	5,701
Change in deferred consideration	5(e)	**(4,056)**	2,307
Change in surplus lease provision	22	**(23,025)**	26,560
Change in decommissioning provision	5(e)	**(1,627)**	–
Hedge accounting deferral	20	**(2,456)**	(119,055)
Amortisation of option premiums	20	**(31,210)**	(111,572)
Unrealised loss/(gain) on financial instruments	5(a)(b)	**53,088**	(3,906)
Unrealised exchange gains	5(e)	**(51,867)**	(15,030)
Net finance (income)/expense	6	**127,835**	225,517
Operating profit before working capital changes		**407,222**	242,058
Decrease/(increase) in trade and other receivables		**26,579**	(76,429)
(Increase)/decrease in inventories		**(7,356)**	10,085
(Decrease)/increase in trade and other payables		**(18,198)**	45,980
Cash generated from operations		**408,247**	221,694

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 parent company 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 2016

	Note	2016 US$'000	2015 US$'000
Fixed assets			
Investments	3	**984,958**	987,872
Current assets			
Debtors			
– due within one year	5	**6,411**	3,377
– due after one year	5	**936,134**	894,820
Cash at bank and in hand	4	**9,935**	283
		952,480	898,480
Creditors: amounts falling due within one year	7	**(231,428)**	(223,915)
Net current assets		**721,052**	674,565
Total assets less current liabilities		**1,706,010**	1,662,437
Creditors: amounts falling due after one year	8	**(855,739)**	(870,281)
Net assets		**850,271**	792,156
Share capital and reserves			
Called up share capital	9	**83,342**	61,249
Share premium account		**125,297**	52,184
Merger reserve		**905,890**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(6,602)**	(11,995)
Profit and loss account		**(297,799)**	(255,315)
Shareholders' funds		**850,271**	792,156

The attached notes 1 to 12 form part of these Company financial statements.

The financial statements on pages 141 to 147 were approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity

At 31 December 2016

	Share capital US$'000	Share premium account US$'000	Merger reserve US$'000	Other reserve US$'000	Share-based payments reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2015	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
Loss for the year	–	–	–	–	–	(42,484)	(42,484)
Total comprehensive income for the year	–	–	–	–	–	(42,484)	(42,484)
Issue of share capital	22,093	73,113	–	–	–	–	95,206
Share-based payment charge	–	–	–	–	8,452	–	8,452
Shares purchased on behalf of Employee Benefit Trust	–	–	–	–	(3,059)	–	(3,059)
At 31 December 2016	**83,342**	**125,297**	**905,890**	**40,143**	**(6,602)**	**(297,799)**	**850,271**

Notes to the Financial Statements

For the year ended 31 December 2016

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 20 March 2017.

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

These separate financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006 (the 'Act'). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

These financial statements are prepared under the historical cost basis except for the remeasurement of certain financial instruments to fair value. 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.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Group accounts.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the parent company. The parent company's accounts present information about it as an individual undertaking and not about its group. The Company reported a loss for the financial year ended 31 December 2016 of US$42.5 million (2015: loss US$389.6 million). There were no other recognised gains or losses in the period (2015: nil).

Going concern

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. See pages 34 and 35 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 2016.

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 cash flows 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 it has 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 profit or loss.

Notes to the Financial Statements continued

For the year ended 31 December 2016

2. Summary of significant accounting policies continued

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.

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.

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 2015	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
Additions	8,453	–	8,453
At 31 December 2016	**1,371,094**	**1,797**	**1,372,891**
Provision for impairment			
At 1 January 2015	–	1,108	1,108
Impairment charge for the year	374,892	566	375,458
At 31 December 2015	374,892	1,674	376,566
Impairment charge/(reversal) for the year	11,415	(48)	11,367
At 31 December 2016	**386,307**	**1,626**	**387,933**
Net book value			
At 31 December 2016	**984,787**	**171**	**984,958**
At 31 December 2015	987,749	123	987,872
At 31 December 2014	1,356,940	689	1,357,629

The Company has recognised an impairment of its investment in subsidiary undertakings of US$11.4 million (2015: US$374.9 million). The impairment for the year ended 31 December 2016 has been driven by increased levels of borrowings by subsidiaries, plus a reduced hedge book value compared to 31 December 2015, partially offset by an increased value of the underlying oil and gas assets.

Details of the Company's subsidiaries at 31 December 2016 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 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 13 of the Group financial statements for more detail on the impairment.

Notes to the Financial Statements continued

For the year ended 31 December 2016

4. Cash at bank and in hand

	2016 US$'000	2015 US$'000
Cash at bank and in hand	**9,935**	283

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

	2016 US$'000	2015 US$'000
Due within one year		
Amounts due from subsidiaries	**4,113**	3,097
Prepayments	**28**	30
Other financial assets	**2,270**	250
	6,411	3,377

	2016 US$'000	2015 US$'000
Due after one year		
Amounts due from subsidiaries	**936,134**	894,820

During the year ended 31 December 2015, contingent consideration receivable on the disposal of the Slovenian Petisovchi asset to Ascent in 2011 was converted into a convertible loan note. The convertible loan note is measured at fair value, which was US$2.3 million at 31 December 2016 (2015: US$0.3 million).

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of US$65.9 million (2015: US$36.1 million) 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

	2016 US$'000	2015 US$'000
Bond interest	**10,264**	12,319
Amounts due to subsidiaries	**218,227**	211,026
Accruals	**2,937**	570
	231,428	223,915

8. Creditors: amounts falling due after one year

	2016 US$'000	2015 US$'000
Bonds	**855,739**	870,281

At 31 December 2016, bonds comprise a high yield bond with principal of US$672.5 million and a retail bond with principal of £155 million. The bonds mature in April 2022 and pay a coupon of 7% bi-annually. See note 19 of the Group financial statements.

9. Called up share capital

	2016 US$'000	2015 US$'000
Allotted, called up and fully paid 1,159,398,871 (2015: 802,660,757) Ordinary shares of £0.05 each	**83,342**	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.

On 21 November 2016, the Company completed a placing and open offer, pursuant to which 356,738,114 new Ordinary shares were issued at a price of £0.23 per share, generating gross aggregate proceeds of US$101.6 million. There were no new issues of shares during 2015.

At 31 December 2016 there were 33,563,282 shares held by the Employee Benefit Trust (2015: 26,702,378): 10,739,486 shares were acquired on 21 November 2016 pursuant to the open offer with the remainder of the movement due to shares used 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. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in note 5(h) of the Group financial statements.

12. Post balance sheet events

Refer to note 27 of the Group financial statements.

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EnQuest PLC shares are traded on the London Stock Exchange and on the NASDAQ OMX Stockholm, in both cases using the code 'ENQ'.

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25 May 2017: 2017 Annual General Meeting
7 September 2017: 2017 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.

Forward looking statements:
This report may contain certain forward looking statements with respect to EnQuest's expectations and plans, strategy, management's objectives, future performance, production, costs, revenues, reserves and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this report should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.

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