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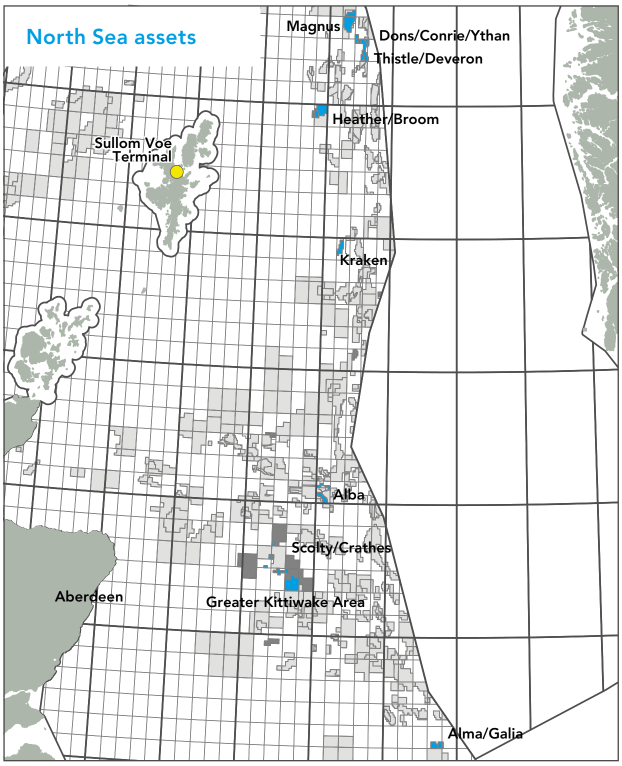
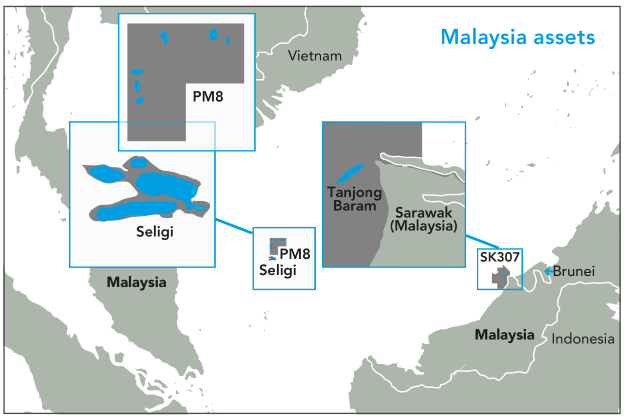
Contents

EnQuest PLC
Annual Report and Accounts 2017

EnQuest is an oil and gas production and development company, using its differential capabilities to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner.





- Producing assets
- Other licences
- Onshore terminal

Strategic Report

Corporate Governance

Financial Statements

Highlights

2017 Performance

Production

37,405 Boepd, (6)%

Cash capex[1]

$367.6m, (40)%

Unit opex

$25.6/Boe, +4%

READ MORE ON KPIs
SEE PAGE 07

Kraken first oil in June

- Delivered on schedule with excellent drilling performance a key component in significantly reducing full cycle gross capital expenditure
- Achieved gross production rates of over 40,000 Bopd

Completion of acquisition of assets from BP in December

- Innovative transaction structure requiring no immediate cash payment from EnQuest
- Good strategic fit, capitalises on EnQuest's strengths in realising value from maturing oil fields with large volumes in place
- Option to increase equity ownership

2018 Outlook

Production range

c.50,000 to 58,000 Boepd, +c.33% to 50%

Cash capex

c.$250m, c.(30)%

Unit opex

c.$24/Boe, c.(5)%

FOR MORE DETAILS
SEE PAGE 11

Kraken production increasing; project capital expenditures reduced

- Gross production averaged 38,000 Bopd in the first two months of 2018 and has already reached the targeted 50,000 Bopd (gross) as planned
- Drilling rig contract renegotiation has led to full cycle gross project capital expenditure being further reduced to $2.3 billion, more than 25% lower than originally sanctioned

Extensive near-field drilling programme planned

- Kraken DC4 wells to be drilled in the second half of 2018, with first production in 2019
- Three-well programme at Magnus underway, expected onstream later in 2018
- Two wells to be drilled at PM8/Seligi, EnQuest's first drilling campaign in these fields
- Heather H-67 sidetrack well drilled and onstream in Q1

Key risks for 2018

- A materially lower than expected production performance at the Kraken field
- Unexpected shutdowns on producing assets for an extended period of time

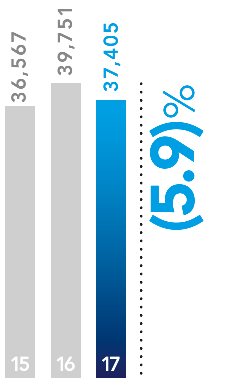
FOR MORE DETAILS
SEE PAGES 40 to 47

2017 statutory reporting metrics

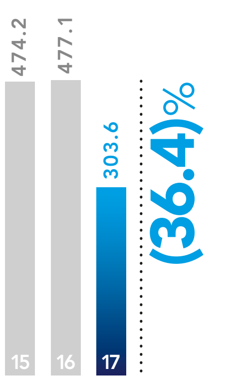
	2017 $m	2016 $m	Change
Revenue and other operating income	627.5	798.1	(21.4)%
Profit/(loss) before tax	(243.8)	217.2	–
Basic earnings per share (cents)	(5.4)	22.7	–
Net cash flow from operating activities	301.8	379.5	(20.5)%
Net assets	760.9	818.9	(7.1)%

Notes:
1 Cash capex is stated net of proceeds received from the disposal of tangible and intangible fixed assets of $nil (2016: $1.5 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.

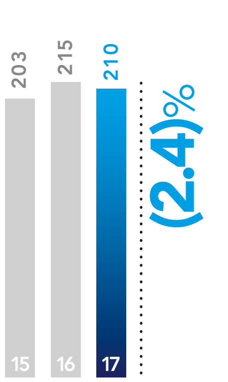
Production
(Boepd)



EBITDA
($ million)[2]



Net 2P reserves
(MMboe)



STRATEGIC REPORT

This Strategic Report includes details of EnQuest's strategy, business model, capabilities, values, long-term track record and key risks. The Group's performance since the last Annual Report and current outlook is covered within the Chairman's statement, the Chief Executive's report and the Operating, Financial and Corporate responsibility reviews.

Achievements

- In January, EnQuest announced an agreement to acquire an initial 25% interest in the Magnus oil field and a 3.0% interest in the Sullom Voe Oil Terminal from BP via an innovative transaction structure.
- In February, the Kraken Floating Production, Storage and Offloading ('FPSO') vessel arrived in the field and was securely moored on station.
- The Alma/Galia FPSO was brought back onstream following unscheduled outages caused by winter storm damage.
- Excellent drilling progress was made at Kraken with the completion of the first and second drill centre ('DC') programmes, delivering seven producer and six injector wells, followed by drilling at DC3.
- First oil was produced from the Kraken development in June.
- Kraken's full cycle gross project capital expenditure estimate was reduced during 2017, reflecting the earlier than expected completion of DC3 and lower market rates for the remaining subsea campaign. The well completions included the world's longest open hole interval gravel packed with OptiPac screens (4,347ft).
- The first Kraken oil cargo was lifted from the FPSO in September.
- The final phases of Alma/Galia optimisation projects for power, produced water and sea water injection were completed, leading to increased production uptimes.
- The second Kraken production processing train was brought onstream in November, assisting in delivering gross production rates of over 40,000 Bopd.
- Kraken crude oil quality was well received by buyers, as reflected in the sale of some spot cargos at a discount to Brent of less than $5/bbl.
- In the Greater Kittiwake Area, the Mallard/Gadwall water injection flowline replacement was completed and brought into service.
- A compression reliability improvement programme was completed on PM8/Seligi, underpinning delivery of production volumes.
- At the start of December, EnQuest completed its acquisition of the Magnus oil field and Sullom Voe Oil Terminal, becoming the operator of both.
- Across 2017, the Group's strong focus on HSE&A led to a significant improvement in the Recordable Incident Frequency Rate and 12 months without a reportable hydrocarbon release in the North Sea business.
- In early 2018, EnQuest agreed renegotiated terms for the Transocean Leader drilling rig, reducing both the contract duration and day rates, saving c.$60 million of net cash payments for capital expenditure in 2019. Kraken full cycle gross project capital expenditure has been further reduced and is now expected to be c.$2.3 billion, more than 25% lower than originally sanctioned.

Strategy and business model

Strategic vision

To be the operator of choice for maturing and underdeveloped hydrocarbon assets

Operational excellence

FOR MORE DETAILS SEE PAGES 10 to 16, 36 to 39

Underpins everything we do. With safety a top priority, EnQuest's highly skilled and integrated teams strive to enhance hydrocarbon recovery through focused improvement programmes with no harm to people and with respect to the environment.

- Workshops held at DNV GL's Spadeadam Testing and Research centre to maintain and improve Major Accident Hazard awareness
- Learning culture and sharing of best practice enabled continuous improvements to the Kraken drilling programme which was c.300 days ahead of schedule in 2017
- Integrated technical teams delivered the world's longest open hole interval gravel packed with OptiPac screens
- Improving safety systems, asset integrity and equipment reliability by upgrading and replacing obsolete components at Thistle and PM8/Seligi

Differential capability

FOR MORE DETAILS SEE PAGES 05, 10 to 16

EnQuest has the right mix of integrated technical capabilities to select appropriate development and production options, delivering high levels of production efficiency and cost control to realise value from maturing and underdeveloped assets. Achieving asset life extension and maximising economic recovery from those assets will enable future growth.

- Redesign, upgrade and re-use of existing facilities and infrastructure
- Successful well work programmes at PM8/Seligi through integrated teams facilitated new production to arrest field decline prior to any drilling activity
- Matching production history to support development drilling and secondary recovery schemes to add additional reserves and further extend field life
- Drilling rig reactivation at Thistle and Magnus

Value enhancement

FOR MORE DETAILS SEE PAGES 05, 14 to 15

EnQuest employs a cost conscious approach and implements innovative initiatives to add value to its operations. Innovative transaction structures facilitate getting the right assets into the right hands.

- Hub approach to logistics, inspection and maintenance combined with inventory sharing with other operators in the North Sea
- Innovative supply chain management, including interactive supplier forums, open book contracts and 'should cost' modelling
- Innovative transaction structure enabled the acquisition of Magnus, SVT and associated infrastructure from BP

Financial discipline

FOR MORE DETAILS SEE PAGES 31 to 35

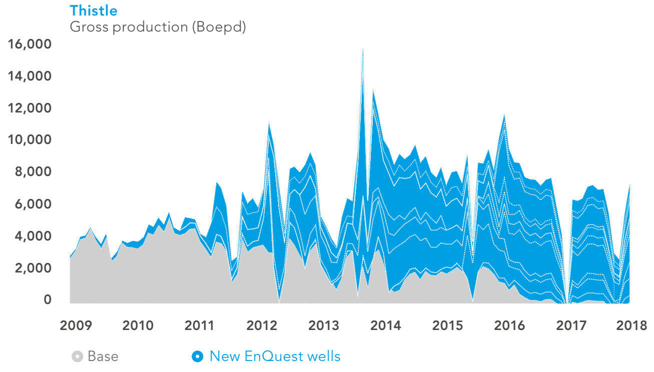
Focuses on capital allocation that prioritises positive cash flow generative investment and the effective management of EnQuest's capital structure and liquidity.

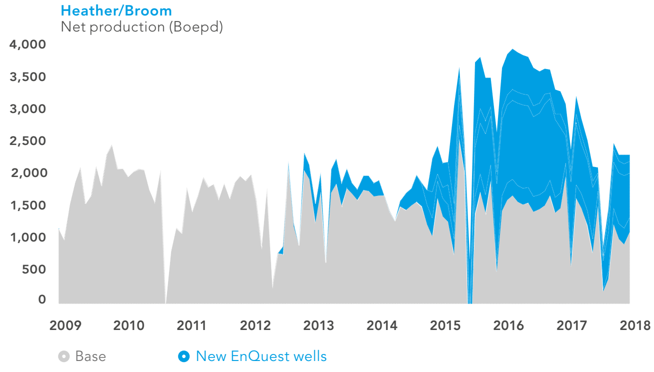
- Unit opex down 39% since 2014 at $25.6/Boe in 2017
- Gross full cycle Kraken capital expenditure expected to be more than 25% lower than sanction at c.$2.3 billion
- 2016 financial restructuring
- Enhanced liquidity activities through prepayments, refinancing and exercising Thistle decommissioning option

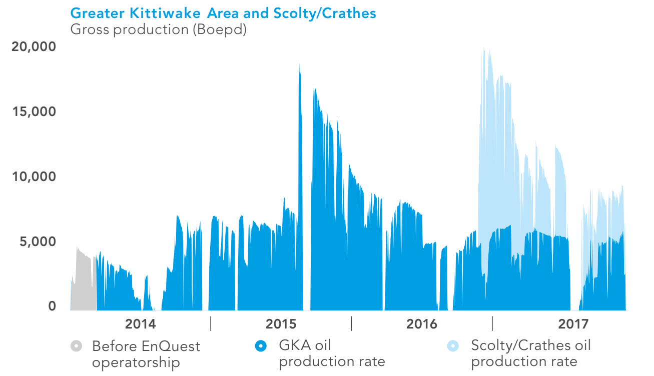
"EnQuest's focus on owning and operating maturing and underdeveloped hydrocarbon assets has enabled it to add value through improving the performance of its assets, delivering significant production growth and extending their economic lives."

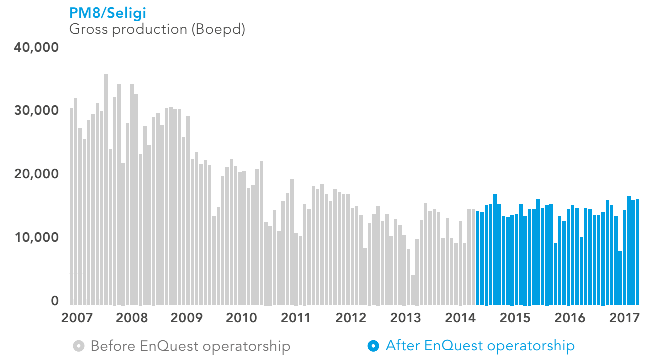
Track record

Having the right assets in the right hands leads to improved performance









Initiatives

Thistle
Modern seismic; reactivation of the old drill rig and drilling of new wells; major power supply upgrade; introduction of new and simplified process controls and safety systems; integrity work on the platform topsides; water injection reliability programme; shutting off some water production from wells that produce high levels of water.

Heather/Broom
Drilling rig reactivation, drilling workovers and new wells; a new injection flowline; low-cost well abandonment to reduce integrity risk.

Greater Kittiwake Area and Scolty/Crathes
Drilling, workovers and dissolver treatments; cost efficiency drive; delivery of first oil from the Scolty/Crathes development.

PM8/Seligi
Facility integrity, gas compression overhaul and reliability; idle well restoration; process simplifications.

Results

Thistle
Returned 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. In 2017, well shut-ins delivered an extra 1,000 Bopd, double the target production uplift.

Heather/Broom
Materially increased production levels and improved production efficiency.

Greater Kittiwake Area and Scolty/Crathes
Gross production increased from 2,000 Boepd levels to between 14,000 and 16,000 Boepd by the last quarter of 2015 and improved production efficiency; unit operating costs substantially down, from over $100/bbl to below $30/bbl; bringing Scolty/Crathes onstream extends the life of the GKA hub to at least 2025.

PM8/Seligi
Quickly increased gross production from 12,400 Boepd to 15,100 Boepd; production efficiency has been enhanced and maintained at high levels.

EnQuest values

EnQuest people

Working within corporate treasury at EnQuest brings a variety of challenges every day. The requirements of the role, access to senior management, involvement in the Company's funding and cash management strategies, which in turn requires an understanding of our hedging programme, means I have a tangible impact on the Company's performance.

Jordan Labrom
Treasury and Trading Analyst

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

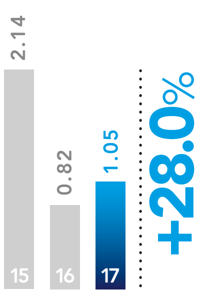
EnQuest's people are unified by a common set of values; these values differentiate us as an organisation and are enablers for our investment proposition.

- Respect
- Focus
- Agility
- Creativity
- Passion
- Collaboration
- Empowerment

"This year we have continued to work on ensuring we have the right capabilities across the organisation to deliver our business plan."

Key performance indicators

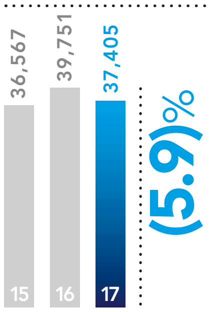
A: HSE&A UK North Sea lost time incident frequency rate[1]



EnQuest delivered on its commitment to continual improvement in HSE&A performance. In occupational safety, our Lost Time Incident ('LTI') performance remained strong, with many assets recording an LTI-free year.

FOR MORE DETAILS
SEE PAGES 36 to 39

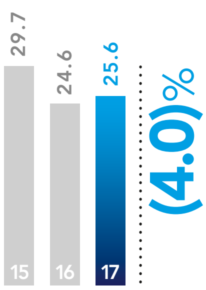
B: Production (Boepd)



Production was 5.9% lower than 2016, driven by performance issues at Alma/Galia and natural declines at the Group's other North Sea fields, partially offset by production from Kraken and a full year of production from Scolty/Crathes.

FOR MORE DETAILS
SEE PAGES 08 to 11 and 18 to 28

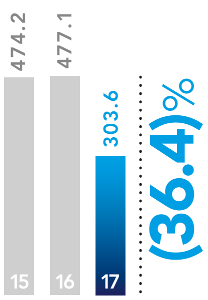
C: Unit opex ($/Boe)



Average unit operating costs were 4.0% higher than 2016 ($24.6/Boe) primarily as a result of the 5.9% reduction in production.

FOR MORE DETAILS
SEE PAGES 31 to 35

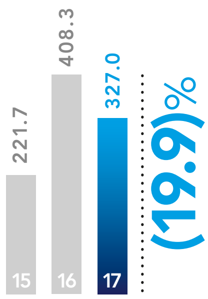
D: EBITDA ($ million)[2]



Lower realised prices, reflecting the forward prices available at the time at which the commodity hedge programme was implemented, combined with lower production reduced EnQuest's EBITDA.

FOR MORE DETAILS
SEE PAGES 31 to 35

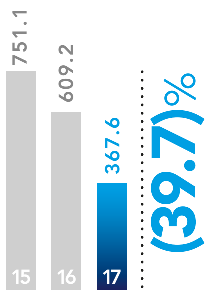
E: Cash generated by operations ($ million)



Cash generated by operations was 19.9% lower than 2016, reflecting the impact of commodity hedges and lower production, partially offset by the higher average oil price.

FOR MORE DETAILS
SEE PAGES 31 to 35

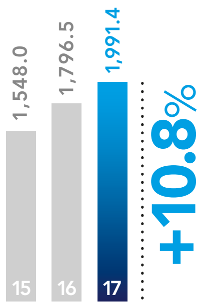
F: Cash capex ($ million)[3]



Cash capex was 39.7% lower than 2016, primarily driven by lower spend at Kraken, which came onstream in Q2 2017. $252.2 million was spent on the Kraken development, primarily related to drilling. The remaining spend largely relates to the settlement of deferred invoices in respect of the Alma/Galia and Scolty/Crathes developments and the Eagle discovery.

FOR MORE DETAILS
SEE PAGES 31 to 35

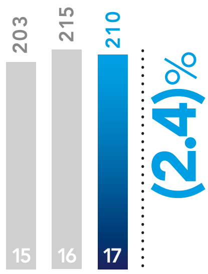
G: Net debt ($ million)



Net debt increased by 10.8% compared to 2016, primarily reflecting the ongoing capital expenditure programme at Kraken. Excluding Payment in Kind interest, net debt was $1,900.9 million (2016: $1,768.8 million). The Group has remained in compliance with financial covenants under its debt facilities throughout the year and managing ongoing compliance remains a priority.

FOR MORE DETAILS
SEE PAGES 31 to 35

H: Net 2P reserves (MMboe)



The slight reduction in reserves reflects the combined effects of the year's production and changes in long-term assumptions, combined with lower production performance in the North Sea, partially offset by the Magnus acquisition related increase and better performance in Malaysia.

FOR MORE DETAILS
SEE PAGE 30

1 Lost time incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours).
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.
3 Net of proceeds from disposal of $nil (2016: $1.5 million, 2015: $75.5 million).

Chairman's statement

> In 2018, EnQuest has entered a new phase.

Jock Lennox Chairman

EnQuest performance overview
EnQuest delivered a number of commendable operational achievements in 2017, combined with another year of strong safety performance. In June, first oil was achieved at the Kraken project, a critical turning point for the Company in delivering improved operating cash flow and marking the start of a material reduction in the Group's capital investment requirements. While the subsequent ramp-up in production took longer than anticipated following initial commissioning and operational efficiency issues, by the end of the year, this large and complex development had produced over 40,000 Bopd (gross). In the first two months of 2018, average gross production was around 38,000 Bopd, and has reached 50,000 Bopd with improving operational efficiency as we continue to optimise performance.

Group production of 37,405 Boepd in 2017 was disappointing, primarily caused by performance issues at Alma/Galia and lower than planned production from both Kraken and Scolty/Crathes.

Despite the challenges presented by the prevailing macro-economic environment, the Group undertook further steps to set the platform to improve the balance sheet. The Group delivered operating and capital expenditures in line with targets, demonstrating the team's focus on cost control and managing commercial agreements. EnQuest also completed a crude oil prepayment transaction and executed a refinancing agreement for its Tanjong Baram project in Malaysia, which combined improve the Group's liquidity by more than $100 million.

The Group continued to pursue its vision and advance its long-term growth plan, agreeing and completing the acquisition of interests in the Magnus oil field and the Sullom Voe Oil Terminal ('SVT') from BP. This innovatively structured transaction required no immediate cash payment from EnQuest and limits the Group's exposure to negative cash flows from Magnus, capitalising on EnQuest's strengths in realising value from maturing oil fields with large volumes in place.

This transaction adds to the material growth potential of EnQuest's asset base. By the end of 2017, EnQuest had a net 2P reserve base of 210 MMboe, which represents average growth of approximately 13% per annum since EnQuest's formation eight years ago and a reserve life of around 17 years.

Industry context
Oil & Gas UK's Economic Report 2017 showed that since 2014 the cost of lifting oil from the North Sea has almost halved, an improvement in unit operating costs highlighted as being greater than the improvements achieved by any other basin. EnQuest's cost conscious approach has been central to its business model since its inception and the Group remains focused on driving innovative and collaborative ways of operating to deliver cost savings across its business. While that quantum of reduction in operating costs cannot be repeated, a focus on improving costs and driving efficiencies is a fundamental requirement in ensuring EnQuest is able to deliver profitable growth over the long term.

The opportunity for long-term growth in the North Sea is clear: The UK Oil & Gas Authority recently announced they expect 11.7 billion barrels of oil and gas to be produced from the UK Continental Shelf ('UKCS') over the period 2016 to 2050, an increase of 2.8 billion barrels of oil and gas from that previously forecast; and the UK Department for Business, Energy & Industrial Strategy forecasts oil and gas will still be supplying around two-thirds of domestic energy demand by 2035, confirming their place as vital sources of energy supply.

EnQuest is supportive of the UK Government's proposals to introduce a mechanism to transfer tax history on the sale and purchase of North Sea oil assets. We welcome the removal of a potential tax barrier to the conclusion of deals. EnQuest has demonstrated the dramatic and positive impact on production, production efficiency and field life which can be achieved when assets move into the right hands. If implemented in the right way, these measures will be another positive step by the Government in supporting the strategy for Maximising Economic Recovery for the UK.

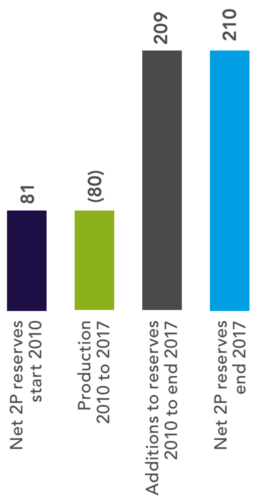
The UKCS remains a compelling basin in which to invest. It has exciting hydrocarbon opportunities, established infrastructure, access to a world-class supply chain and a highly skilled workforce, all supported by a globally competitive fiscal regime. A similar investment proposition continues to prevail in Malaysia where the Group has a strong partnership with PETRONAS. These opportunities provide EnQuest with long-term potential for growth.

The EnQuest Board
With the Board's focus on succession planning, and after rigorous search processes, I was delighted to welcome three new Non-Executive Directors to the Company since the start of 2017: Carl Hughes joined the Board on 1 January 2017, having previously been an energy and resources audit partner of Deloitte; John Winterman, who has extensive leadership experience in global exploration, business development and asset management, was appointed on 7 September 2017; and Laurie Fitch, who has worked in a variety of investment and corporate finance roles, joined us on 8 January 2018. All three bring considerable and varied expertise to the Company and I look forward to working with them.

In July 2017, Dr Philip Nolan stepped down from his role as Non-Executive Director, having joined the Board in 2012. I thank Philip for his valuable contribution to the Company, especially in its development over the past five years. I would also like to thank Neil McCulloch, who stepped down as Chief Operating Officer and Executive Director in December 2017, for his unstinting contribution to EnQuest during a challenging period for both the Company and industry.

EnQuest's people
In 2017, the Group remained focused on positioning the business for the prevailing oil price environment, whilst at the same time ensuring it continued to achieve its operational targets. Management of matters pertaining to the Kraken and Magnus projects required significant amounts of the Board and management's time and attention, while compliance with debt covenants and review of liquidity options also remained a priority. The Group's achievements against these objectives have only been possible due to EnQuest's people. The Board and I would like to express our gratitude to everyone at EnQuest for having continued to work with such energy and dedication to

Net 2P reserves
(MMboe)



OPERATOR OF CHOICE

address the challenges presented in recent years, ensuring that EnQuest can move forward, to create further value from opportunities in maturing oil fields.

The Board and I would also like to take this opportunity to thank all those who worked on the acquisition of assets from BP, and extend a particularly warm welcome to our new colleagues and contractor workforce who joined EnQuest as a result.

Strategy and governance

The Directors provide strategic guidance to executive management and take key decisions on the implementation of the Group's strategy.

During 2017, the Board reviewed and refined the presentation of the Company's purpose, vision, strategy and business model (see page 04). In addition, a number of 'tenets' were developed to guide the Company's pursuit of its strategy in accordance with the Group's appetite for risk and within its Risk Management Framework.

Ensuring that the Board works effectively remains a key focus of the Company. 2017 saw the Risk Committee, established in 2016, fully embedded into the governance structure of the Company. The primary purpose of the Risk Committee is to provide a forum for in-depth examination of non-financial risk areas. EnQuest's governance framework also contains several non-Board Committees, which provide advice and support to the Chief Executive, including an Executive Committee, Operations Committee and Investment Committee.

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. The Board has approved the Company's overall approach to corporate responsibility, which is focused on five main areas. These are, Health and Safety, People, Environment, Business Conduct and Community.

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 Health, Safety, Environment & Assurance ('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. Specific developments and updates in all areas are brought to the Board's attention when appropriate.

The Group has a Code of Conduct that it requires all personnel to be familiar with as it sets out the behaviour which the organisation expects of its Directors, managers and employees, and of our suppliers, contractors, agents and partners. This year, it has been updated with guidance on preventing the facilitation of tax avoidance.

EnQuest's Company values underpin a working environment where people are safe, creative and passionate, with a relentless focus on results. Inductions for all employees transferring from BP were run in September to ensure that all those impacted understood the EnQuest business, how we work and how they can contribute to EnQuest's success. Alongside this, time was invested to understand the culture of our business through an online survey and subsequent focus groups. Following a review of the results from these activities, the Executive Committee is working on identifying the next steps to develop the culture and ensure that EnQuest is an attractive place to work.

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 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 considers appropriate.

2018: A new chapter

In 2018, EnQuest is entering a new phase. Kraken is progressing well, the Magnus integration and drilling programmes are well underway, plans are being developed to enhance performance at our other producing assets, and the period of heavy capital investment is largely behind us. These material advances should result in EnQuest generating positive net cash flow after investment and tax, allowing us to continue to manage our capital structure and liquidity position. Despite the current improvement in the near term oil price environment, we recognise we must maintain our focus on financial discipline, cost efficiencies and managing Group liquidity. Consequently, it is important that we prioritise our resources to those key projects which maximise cash flow to facilitate debt reduction, continuing the Company's progress towards a more sustainable balance sheet and enabling the long-term growth of the business.

Chief Executive's report

> With production growing, a strong focus on cost control and a substantially reduced cash capital expenditure programme, EnQuest should see strong cash flow growth.

Amjad Bseisu Chief Executive

EnQuest's priorities and performance in 2017

2017 was a transformational year for EnQuest, positioning the Group for profitable growth and transitioning from a period of heavy capital investment to one in which the Group can begin to reduce its debt. The Group focused on the Kraken development, completion of the asset acquisitions from BP, delivery against our financial and operational targets and the effective management of the Group's financial position.

Operational performance

EnQuest was proud to deliver first oil from Kraken on schedule while significantly reducing full cycle gross capital expenditure. Kraken is one of the largest developments in the North Sea in the last ten years, comprising a phased drilling campaign of 25 wells tied back to a complex new Floating Production, Storage and Offloading ('FPSO') vessel. The drilling performance has been excellent, with the first three programmes completed early and at a lower cost than originally planned. The FPSO has taken longer than expected to commission, leading to lower operational efficiency than planned. A systematic process to resolve these issues has improved uptime and, with the reservoir performing in line with expectations, production increased throughout 2017 and into 2018.

On 1 December 2017, EnQuest completed the acquisition of initial interests in Magnus, SVT and associated infrastructure from BP and assumed operatorship. This large and complex transition was achieved safely and efficiently, delivered on time and on budget, with the integration of these assets into the EnQuest business progressing well.

EnQuest's average production of 37,405 Boepd reflected Electrical Submersible Pump ('ESP') performance issues at Alma/Galia and lower than planned production from both Kraken and Scolty/Crathes. Overall the Group's production performance was disappointing and led to EnQuest reducing its 2017 production guidance in August last year. However, the combination of improving performance at Kraken, planned drilling and workover campaigns at a number of assets and a full year's contribution from Magnus underpins EnQuest's expectation of material production growth in 2018.

Net 2P reserves of 210 MMboe at the end of 2017 represented a 2.4% decrease on the 215 MMboe at the end of 2016. This small decline reflects some changes in long-term assumptions, combined with lower production performance in the North Sea, partially offset by the Magnus acquisition related increase and better performance in Malaysia. When EnQuest was formed in 2010, it had 81 MMboe of reserves. Our ability to exploit, develop, convert and selectively acquire or dispose of reserves has meant that by the end of 2017, EnQuest had produced almost the entirety of this initial reserve base, and still has 2P reserves with a current production life of around 17 years.

Financial performance

The Group's focus on financial discipline resulted in total operating expenditures of $349.3 million, unit opex of $25.6/Boe and cash capital expenditure of $367.6 million. While it is becoming more challenging to deliver the large decreases in operating costs of recent years, the Group will continue to pursue further operating cost reduction initiatives.

EBITDA of $303.6 million was materially lower than 2016. This reduction was driven by lower realised prices, which reflected the forward prices available at the time at which the commodity hedge programme was implemented, combined with lower production. The commodity hedge programme resulted in realised losses of $20.6 million in 2017 compared to realised gains of $255.8 million in 2016.

EnQuest's ongoing programme of prudent measures to improve liquidity included the completion of an $80 million oil prepayment transaction and execution of a $37.25 million refinancing agreement in relation to its Tanjong Baram project, which completed in February 2018. Combined, this provides over $100 million of additional financial resources. EnQuest continued its close dialogue with its lending banks, agreeing a relaxation of the Company's covenants and amending the amortisation schedule of its Term Loan and Revolving Credit Facility; these changes provided additional flexibility while Kraken continued to increase production rates. EnQuest finished the year with net debt of $1,900.9 million, excluding Payment in Kind interest.

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

EnQuest delivered on its commitment to continual improvement in HSE&A performance, achieving good year-on-year improvement in 2017 with excellent results in many areas and meeting the majority of our performance targets.

In occupational safety, our Lost Time Incident ('LTI') performance remained strong in both Malaysia and the UK, with many assets recording an LTI-free year. We had no reportable hydrocarbon releases during 2017 on our UK operated assets, having increased our focus on asset integrity and implemented hydrocarbon prevention plans across our sites. Our drive for operational excellence saw continued focus in the UK on coaching our workforce to identify and understand control of Major Accident Hazards ('MAH'), embedding our life saving rules and transitioning to a new control of work tool which enhances both system and behavioural compliance. In March, members of the Board visited a contractor's emergency response centre to help benchmark and refine EnQuest's own emergency response and crisis management plans.

EnQuest's focus on HSE&A is always a priority. Under our continual improvement programme, activities in 2018 focus further on control of MAH and developing and empowering employees to deliver safe results.

North Sea operations

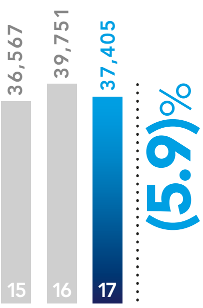
In December, Faysal Hamza and Bob Davenport took over management of EnQuest's North Sea operations as Interim Head of North Sea and Managing Director – North Sea, respectively.

Production in 2017 from the North Sea averaged 28,467 Boepd, down 7.0% compared to 2016. This reduction was driven by lower volumes from Alma/Galia reflecting ESP-related well shut-ins, storm-related production outages and natural declines. Production at other assets was also reduced by lower water injection, natural declines and an unscheduled shutdown in December of the third-party operated Forties Pipeline.

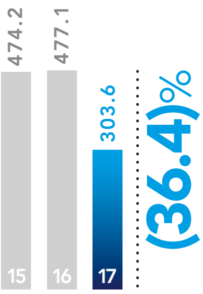
Partially offsetting this decline was production from Kraken, a full year of production from Scolty/Crathes, limited by wax in the flowline, and the initial

DELIVERING EFFICIENCY

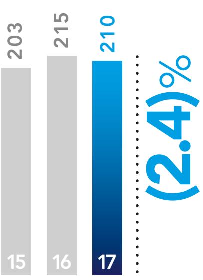
Production
(Boepd)



EBITDA
($ million)[1]



Net 2P 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.

contribution from Magnus. Various production enhancement activities were successfully undertaken during the year, improving performance at a number of fields by year end.

The Kraken development

Following first oil on 23 June 2017, production increased throughout the second half of the year as both production and injection wells performed in line with expectations and the commissioning and operational efficiency issues encountered during the initial production build up were addressed. The second processing train, which was brought online during November, assisted in bringing gross production rates to over 40,000 Bopd. All production and water injection wells from the first three drill centres have been brought online and operational efficiency has significantly improved. Whilst production has been constrained, FPSO charter rates have been reduced in accordance with production levels. We continue to work with the operator to maximise production from Kraken.

The combination of excellent delivery of the DC3 drilling programme, lower market rates for the remaining subsea campaign and the renegotiation of the drilling rig contract with Transocean has resulted in significant reductions to the full cycle gross project capital expenditure, which is now expected to be c.$2.3 billion. This is more than 25% lower than originally sanctioned.

Magnus and the Sullom Voe Oil Terminal

The acquisition is a good strategic and operational fit for EnQuest, providing opportunities for synergies and growth. We invest safely to realise value from opportunities presented in maturing assets, applying our differential capabilities to deliver high levels of production efficiency, asset life extension and cost control. The transaction is aligned with the UK's strategy of Maximising Economic Recovery by getting the right assets into the right hands. Magnus is a good quality reservoir with large volumes in place, providing opportunities for infill drilling and the revitalisation of wells. BP's confidence in EnQuest taking over operatorship underlines EnQuest's capabilities as an asset life extension expert.

Malaysia operations

Production in 2017 was broadly in line with 2016 at 8,938 Boepd, reflecting good operational uptime across PM8/Seligi and Tanjong Baram and the execution of key work scopes, such as the compression reliability improvement and well interventions at PM8/Seligi. Given the natural decline rates of these mature fields, this performance is testament to the team's capabilities in maximising hydrocarbon recovery in advance of the Group's first drilling campaign in PM8/Seligi, planned for 2018.

2018 performance and outlook

The Group expects material production growth in 2018 to between 50,000 and 58,000 Boepd, largely driven by performance at Kraken and a full year's contribution from Magnus, partially offset by natural declines elsewhere in the portfolio. Production performance in the first two months of 2018 was strong across the portfolio, with Kraken gross production averaging around 38,000 Bopd in this period. Extreme cold weather in early March resulted in brief shutdowns at a number of the Group's North Sea fields. While Kraken was shut down, the Group has undertaken much of the workscope previously scheduled for the planned shutdown in April and, as a result, this planned shutdown is no longer required. The Group continues to have planned maintenance shutdowns at a number of the Group's fields, including Kraken, in the third quarter. During 2018, EnQuest expects to drill three wells at Magnus and two wells at PM8/Seligi which, along with the workover programme at Alma/Galia, should result in an improved production performance later in the year, with the DC4 programme expected to come onstream in 2019, sustaining Kraken production.

Unit opex is expected to be approximately $24/Boe. Cash capital expenditure is expected to be lower than 2017 at approximately $250 million and primarily relates to drilling campaigns at Kraken, Heather and PM8/Seligi.

With production growing, a strong focus on cost control and a substantially reduced cash capital expenditure programme, the Group should generate positive net cash flow which will enable it to start reducing debt.

In January 2018, EnQuest received $30 million in cash in exchange for agreeing to undertake the management of the physical decommissioning at Thistle and Deveron and being liable to make payments to BP by reference to 3.7% of the gross decommissioning costs of these assets.

Future growth opportunities

With Kraken delivering and the Group transitioning from a period of heavy investment, our focus is now turning towards the next stage of EnQuest's development. The Group has significant potential within the existing portfolio, in particular at Magnus, PM8/Seligi and, in the longer term, Kraken. Each of these fields has substantial reserves and resources in place and with EnQuest's proven capabilities in enhancing hydrocarbon recovery from mature and underdeveloped assets, the Group is well placed to deliver long-term sustainable growth.

Applying our capabilities to overcome complexity

One of the largest North Sea development projects in recent years, Kraken showcases EnQuest's capabilities to profitably develop complex projects. Rigorous cost discipline and a proven project execution model: just two of the factors behind its journey to first oil.

> It has been a major accomplishment to bring Kraken – with its many challenges and technical complexities – into production. That is due to the talent, drive and skills of people across EnQuest, and our focus now is upon maximising value from this major investment.

Alastair Boyd
Operations Manager, Kraken

DELIVERING KRAKEN

Producing the goods
Kraken is transformational for EnQuest in the context of our production and cash generation performance. It is among the biggest operating assets when measured by production in the modern day UK North Sea. Following first oil on 23 June 2017, gross production rates of approximately 40,000 Bopd were achieved towards the end of the year. With average gross production in the first two months of 2018 around 38,000 Bopd and the targeted gross production of 50,000 Bopd achieved in early 2018.

This centrepiece development in EnQuest's portfolio will drive production and cash flow growth, which should enable the Group to begin reducing its debt.

Delivering on objectives
An interlinked series of factors contributed to successful delivery. These included:

A good understanding of a productive reservoir
- Exceptionally well mapped, with 3D seismic used to place wells
- Two discovery wells and nine appraisal wells were drilled
- In total, almost 50,000 feet measured depth of reservoir section has been drilled to date
- Deep directional resistivity data acquired in all development wells

Excellent drilling performance
- The rig deployed on Kraken was able to operate through challenging weather conditions, with recorded downtime levels of less than 5%
- A highly experienced and competent rig crew delivered continuous improvements by utilising lessons learned in each phase
- Drilling at the second and third drill centres ('DC's) were completed significantly ahead of schedule
- The team delivered the world's longest open hole interval gravel packed with OptiPac screens at 4,347 feet on DC3

A project-specific model
- A comparatively small core team managed a limited number of larger contractors charged with delivering larger workscopes
- Fewer interfaces and greater scope for contractors to pursue efficient progress in their specialist areas underpinned our ability to deliver with agility and efficiency
- Tried-and-tested technologies and systems resulted in important cost efficiencies

As a result of the above initiatives and a strong focus on cost control and commercial agreements, the full cycle gross project capex is now expected to be approximately $2.3 billion, down more than 25% from the projected figure of $3.2 billion at project sanction. By the end of 2017, three of Kraken's four drill centres, comprising 11 production wells and ten water injector wells, were operational.

With high levels of safety performance throughout 2017 and reservoir performance in line with original expectations, the team is confident of maximising the long-term value of this landmark development.

Kraken: key facts
- A large heavy oil accumulation in the UK North Sea, located approximately 125 kilometres east of the Shetland Islands
- Oil was found over 1,000 metres below the seabed in a water depth of 116 metres
- Integrated production system where oil production is supported by water flooding and artificial lift to maximise areal sweep while maintaining voidage replacement
- Four drill centres (of which three are currently drilled and commissioned) comprising 13 horizontal production wells and 12 water injectors all tied back to the Kraken Floating Production, Storage and Offloading ('FPSO') vessel
- One of the largest FPSOs in the UK North Sea today: 275 metres long and weighing 90,000 tonnes; liquid handling capacity of 80,000 barrels per day of oil and 460,000 barrels per day of water; and significant oil storage capacity (600,000 barrels)
- Anticipated production life of 25 years, at sanction
- Oil is offloaded onto shuttle tankers for onward delivery to global customers

"As one of the most significant oil field projects in the UK Continental Shelf, successful production from Kraken is positive news for the whole basin. It has the potential to open up additional heavy oil opportunities in the Northern North Sea, with other developments in the pipeline. It's particularly pleasing to see a project delivered under budget, having clearly benefited from a strong partnership between operator and key service providers."

Dr Andy Samuel
UK Oil & Gas Authority Chief Executive

FOR MORE DETAILS
SEE PAGES 08 to 11 and 26

The right operator, at the right time: the fundamental principle behind EnQuest's acquisition of interests in, and operatorship of, Magnus and associated infrastructure assets, including the Sullom Voe Oil Terminal.

MAGNUS & SVT ACQUISITION

Photo credit: BP

Realising potential

Our experience and track record of extending field lives and our ability to extract additional value from mature assets, alongside our excellent Health, Safety and Environmental performance, positioned EnQuest as the ideal party to assume operatorship of the UK North Sea's most northerly installation.

Early in 2017, EnQuest agreed to acquire an initial 25% interest in Magnus, as well as additional stakes in the Sullom Voe Oil Terminal ('SVT'), the Northern Leg Gas Pipeline and the Ninian Pipeline System from BP.

At the time of the agreement announcement, BP expressed its confidence in EnQuest's ability to extend the productive life of Magnus and consequently support the Maximising Economic Recovery ('MER') agenda for the UK North Sea.

The innovative nature of the contract structure may serve as a model for the future transfer of mature assets from majors to operators-of-scale focused on maximising value and, therefore, as a template for the pursuit of the UK's MER goals. The terms of the initial deal mean there are no requirements for cash from EnQuest, other than as generated from transaction assets, and no exposure to cumulative negative cash flows.

Upon completion on 1 December 2017, EnQuest assumed operatorship, enabling the team to explore the potential of the field that brings with it approximately 14 MMboe of additional net 2P reserves (at 31 December 2017). Full year net production in 2017 was 3,928 Boepd.

Safety, efficiency, value

The 2018 plan for Magnus can be summarised as: keep it safe, increase efficiency and explore how we can create further value.

Immediate activities include performing two well interventions and drilling a new long-reach producer well to enhance production rates. Proposals are also being developed to drill 'twin' producer and injector wells later this year. At the same time, the team will review platform operations – primarily to eliminate unnecessary complexity – while maintaining our focus on safety.

Magnus' proximity to our other Northern North Sea assets also presents the opportunity for EnQuest to identify and capitalise on efficiencies in areas such as logistics support, while our pre-negotiated option to acquire BP's remaining 75% interest in Magnus, as well as additional interests in the other transaction assets, potentially positions us to generate further value.

New depth of experience

With more than 300 employees working at Magnus, SVT and onshore in Aberdeen transferring to EnQuest, our business-wide pool of experience, knowledge and competency has also grown. Amid this growth, we commit to preserving the essential EnQuest characteristics of agility and dynamism.

At SVT, we intend to engage with other stakeholders to ensure it remains fit-for-purpose and proactively explore new business opportunities and maximise the long-term value of the terminal. As an operator of assets, we have a proven track record of driving efficiency improvements while lowering costs.

> "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 Dons 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 benefiting the UKCS, in the spirit of Maximising Economic Recovery (MER UK)."

Mark Thomas
BP North Sea Regional President

Around one-third of EnQuest's North Sea production flows through the terminal, so it plays an important role in EnQuest's future growth and is an essential element of the Group's North Sea portfolio.

Magnus: key facts

- Discovered in March 1974 in the 4th licensing round
- Oil was found 2,709 metres below the seabed in a water depth of 186 metres
- The UK's most northerly field, located 160 kilometres NE of the Shetland Islands, mainly in Block 211/12a
- Oil is recovered by 14 deviated platform wells, then metered and exported to SVT
- Gas separated from the oil is cooled and compressed to recover valuable gas liquids. Dry gas is used to power the platform and provide gas lift to oil wells; quantities beyond this are exported via the FLAGS pipeline to St Fergus

SVT: key facts

- Located at the northern end of the largest of the Shetland Islands, it is one of the largest oil terminals in Europe
- Built between 1975 and 1981 and covers 1,000 acres
- Provides critical storage capacity for the offshore producing fields before oil is loaded on to tankers for onward shipping to refineries worldwide
- Handles production through the Brent and Ninian pipeline systems from more than two dozen oil fields in the east Shetland Basin, between Shetland and Norway. Gas is also imported from West of Shetland fields via a 20-inch pipeline, some is used as fuel in the Power Station and some is exported to Magnus where it is used for Enhanced Oil Recovery

FOR MORE DETAILS
SEE PAGES 08 to 11 and 22

Untapped potential

EnQuest's expertise in deriving maximum value from established assets is exemplified in our work in the PM8/Seligi[1] fields in Malaysia, where we have arrested a decline in production and plan to realise much more untapped potential.

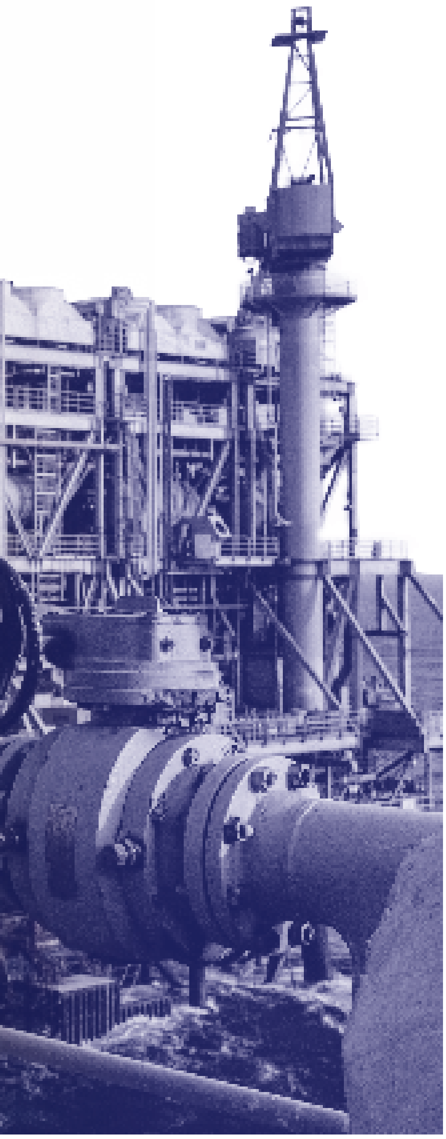
A mature oil field

Historically, the PM8 and Seligi fields were in the group of the largest oil producing developments in Malaysia. Having been in production for more than two decades, the fields had been in natural decline. EnQuest's focus on owning and operating maturing and underdeveloped hydrocarbon assets has delivered exceptional results since its acquisition of an operated interest in the combined PM8 Production Sharing Contract and Seligi oil field in 2014. These outstanding results have been achieved before we conduct our first drilling campaign in the fields.

> "PM8/Seligi is a group of proven oil fields with significant untapped reservoir potential. It is very much part of EnQuest's future… part of our growth opportunity story."
>
> **John Penrose,** Managing Director, Malaysia

1 PM8/Seligi is the term EnQuest uses to refer to the PM-8 Extension Production Sharing Contract ('PSC') as it is officially known by the Malaysian authorities. The PSC comprises the PM8 PSC assets and the Seligi oil field and the term of the PSC runs to 2033.

PM8/SELIGI



Value enhancement through EnQuest's differential capabilities

Without EnQuest's focused life extension capability, it is anticipated production rates would have continued to decline. By instigating work programmes on both the topside facilities and wells, and pursuing performance efficiency across our operations, we arrested the long-term decline trend and started developing a strategy for future growth. Achievements to date include:

- Well intervention activities responsible for increasing our overall active well stock and reducing the gas:oil ratio allowing for more robust operations;
- Rotating machinery reliability improvements, primarily relating to the gas compression trains;
- Production history matching within the reservoir surveillance and dynamic simulation models to support future investment in development drilling and secondary recovery schemes to add additional reserves and further extend field life;
- Process simplification: using Multi-Phase Flow Meters in place of Test Separators to reduce equipment count; and eliminating the requirement to maintain redundant equipment; and
- Improving safety systems, asset integrity and equipment reliability by upgrading and replacing obsolete components.

These programmes have helped PM8/Seligi deliver average working interest production of 8,123 Boepd in 2017. This ranks the fields as EnQuest's single largest production hub in 2017, generating 22% of EnQuest's total production and 22% more than the next largest hub.

Such success would not have been possible, however, without a strong relationship with our regulator and partner, the national oil company Petroliam Nasional Berhad ('PETRONAS'), which holds a 50% interest in the fields through its subsidiary PETRONAS Carigali Sdn Bhd. PETRONAS has recognised these achievements, reflecting our focus on efficiency and the application of the right resources at the right time. They have shared an outline of our idle well restoration template with other operators as an example of good practice in leveraging maximum value from mature assets. We have also received recognition from PETRONAS for our subsurface work in maximising value creation, well intervention campaigns, effective shutdown execution, focus on flare optimisation and assistance in meeting domestic demand fluctuations for natural gas.

2018 and beyond

The first drilling campaign will be performed in 2018 and will feature one appraisal well and one development well within the PM8/Seligi field. This campaign represents the first drilling activity at PM8/Seligi since 2011. Beyond the additional production gains, coring and electric logging in the appraisal well will yield new reservoir data to inform further drilling campaigns, and therefore help to shape future growth activities. The work is to be performed by a semi-submersible tender assisted drilling rig and is scheduled for completion in the second half of 2018.

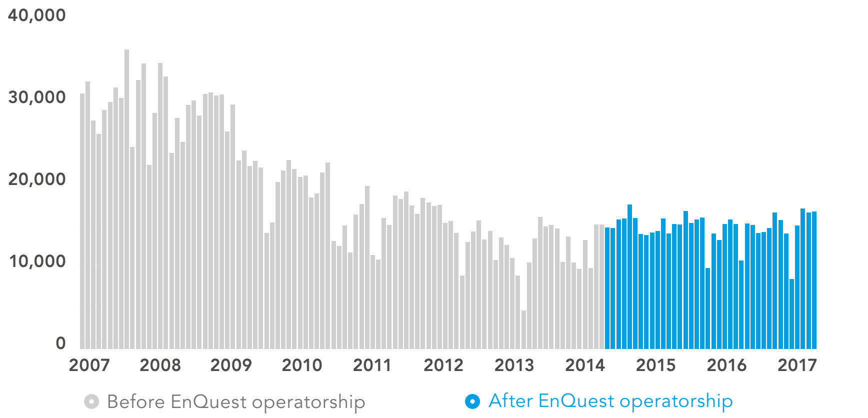
PM8/Seligi: key facts

- The group of oil fields is c.300 kilometres off Peninsular Malaysia in 70 metres water depth
- Oil in the Seligi field is found in reservoirs located between 1,000 metres to 2,000 metres vertically beneath the seabed
- Two central processing platforms and one flare structure
- 11 satellite platforms
- 370 kilometres of pipeline
- Average age of assets: 21 years

FOR MORE DETAILS
SEE PAGES 08 to 11 and 27 to 28

PM8/Seligi

Gross production (Boepd)



We were delighted to take charge of North Sea operations at such an exciting time. In particular, with Kraken onstream and the acquisition of the Magnus oil field and SVT completed, EnQuest is embarking on a new phase in its development.

Faysal Hamza, Interim Head of North Sea and Managing Director – Corporate Development

NORTH SEA OPERATIONS

North Sea operations overview

EnQuest delivered some notable achievements during the year, particularly the delivery of first oil from Kraken on schedule and completing the acquisition of initial interests in the Magnus oil field, the Sullom Voe Oil Terminal ('SVT') and associated infrastructure assets from BP.

Kraken is a landmark heavy oil development project, one of the largest developments in the North Sea in the last ten years. The drilling performance has been excellent, with programmes completed early and at a lower cost than originally planned. Although there were some initial issues with a prolonged commissioning of the Floating Production, Storage and Offloading vessel leading to lower operational efficiency, substantial progress has since been made and performance continues to improve.

On 1 December 2017, EnQuest completed the acquisition of assets from BP. Following a period of extensive preparation, the assets and operations were transitioned safely and smoothly to EnQuest and the integration programme is now well underway. Both assets offer excellent opportunities for EnQuest and the wider industry and are in the spirit of Maximising

"We are committed to delivering superior performance from the North Sea."

Bob Davenport, Managing Director – North Sea

At the end of 2017, Faysal Hamza and Bob Davenport took over management of EnQuest's North Sea operations as Interim Head of North Sea and Managing Director – North Sea, respectively.

Economic Recovery in the UK Continental Shelf. Magnus is a good operational fit and is close to EnQuest's existing operated assets in the Northern North Sea. It has high quality reservoirs with significant future opportunities. EnQuest is drilling three wells in 2018 to deliver increased volumes. At SVT, approximately one-third of the Group's North Sea production flows through the terminal. As such, it has the potential to play an important role in EnQuest's future growth.

The Group's North Sea production declined to 28,467 Boepd, down 7.0% on 2016. Underperformance at Alma/Galia and natural declines elsewhere were partially offset by a full year's contribution from Scolty/Crathes and initial contributions from Kraken and Magnus.

A focus on cost control and commercial agreements resulted in operating costs being in line with the Company's expectations. Such financial discipline is an essential part of the way in which EnQuest does business. Unit operating costs have reduced significantly from historical levels, particularly when the price of oil was above $100/bbl, but the Group recognises the need to continue to work on delivering further cost efficiencies.

NORTHERN NORTH SEA OPERATIONS

- **Daily average net production:**
  - 2017: 15,627 Boepd[1]
  - 2016: 18,885 Boepd

1 Includes net production from Magnus since the acquisition on 1 December 2017, averaged over the 12 months to the end of December 2017.

2017 performance summary

Production in 2017 of 15,627 Boepd was 17.3% lower than 2016. This reduction was primarily driven by lower water injection at Heather/Broom and Thistle/Deveron, combined with natural declines at these and the Dons fields. Production efficiency at Heather/Broom and the Dons fields was very good, and the contribution from Magnus also helped mitigate the reduced production.

During the year, work programmes to improve the reliability of water injection on Heather/Broom, Thistle/Deveron and the Dons were successful, delivering improved performance by the year end. Water injection was reinstated at the Dons in December 2017 following the replacement of the water injection pipelines. On Thistle, work was undertaken to improve the reliability of water injection and shut off areas of the reservoir in which high volumes of water were being produced. The resulting improved water injection performance significantly increased reservoir pressure. Shutting off some water production from four wells that produced high levels of water increased oil production by around a thousand barrels per day, doubling the target uplift from this work scope. When combined with better plant uptime, these programmes enabled Thistle production rates to finish the year strongly.

Reservoir performance and production were above expectations at Don Southwest, with production improving chemical treatments completed at West Don and Don Southwest.

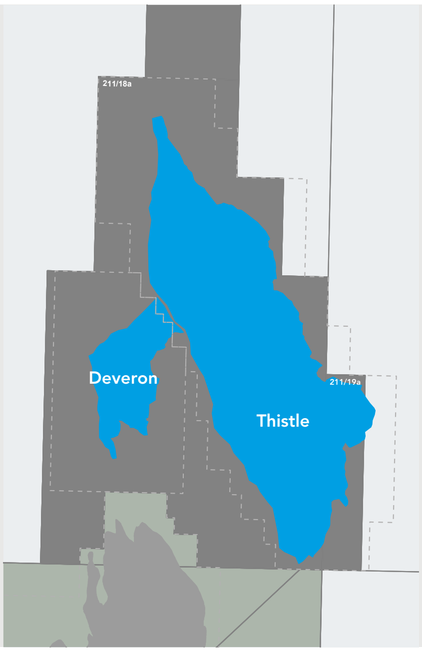
Average gross production of c.16,000 Boepd from Magnus during the full year 2017 was similar to 2016; a good result during this intensive period of preparation for transition. Upon completion of the acquisition on 1 December 2017, EnQuest became duty holder and operator.

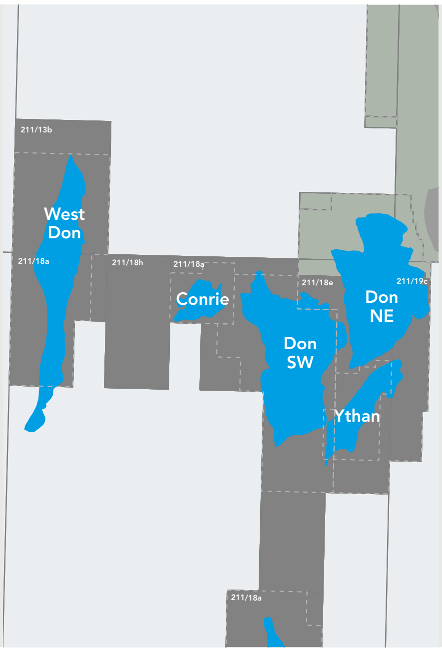
As part of EnQuest's asset life extension strategy, a series of idle well reservoir abandonments were successfully undertaken at Thistle and Heather to reduce integrity risks and provide opportunities for future drilling of infill wells. The abandonment programme on Heather partially abandoned legacy wells which should safeguard sustained high water injection reservoir efficiency. The programme was well executed, delivered ahead of schedule and under budget. This allowed the team to include an additional well within the programme cost estimate. These programmes, co-funded by EnQuest's partners, demonstrate EnQuest's ability to execute low-cost well work and is an important new component of the strategy to extend the lives of these fields, benefiting all stakeholders in these fields.

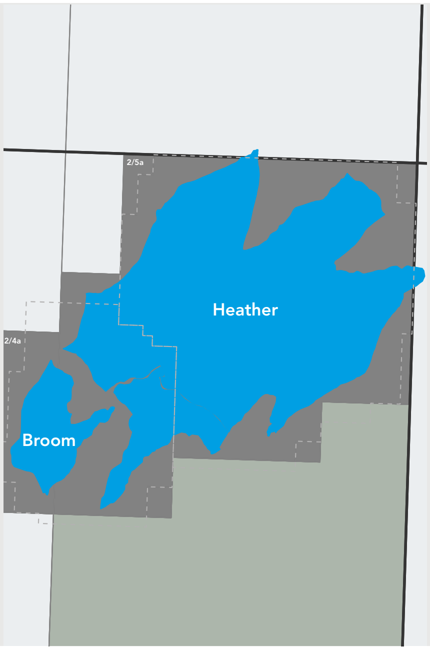
EnQuest people

Since the first day of joining EnQuest I have particularly enjoyed working with my new colleagues in an atmosphere that enables me to develop and encourages me to bring out the best in EnQuest. As the business continues to mature and grow, I look forward to working on the new challenges ahead.

Jenny Thomson
Group Reporting Accountant







ASSET DATA AND 2018 WORK PROGRAMME

THISTLE/DEVERON

- **Working interest at end of 2017:**
  - 99%
- **Decommissioning related costs:**
  - 3.7% (as defined below)[1]
- **Fixed steel platform**

1 EnQuest is liable for the decommissioning costs associated with investment since it assumed operatorship, with the balance remaining with the former owners. Following the exercise of the Thistle decommissioning option in January 2018, EnQuest will undertake the management of the physical decommissioning of Thistle and Deveron and is liable to make payments to BP by reference to 3.7% of the gross decommissioning costs of Thistle and Deveron. EnQuest has an outstanding option to receive $20 million in cash in exchange for making payments by reference to a further 2.4% of the gross decommissioning costs of the Thistle and Deveron fields.

2018 and beyond

A shutdown is planned in Q3, the timing of which is driven by the third-party shutdown of the Cormorant Alpha pipeline, which is Thistle's oil export route. EnQuest will co-ordinate this shutdown with its own planned programme of maintenance work on Thistle.

The well abandonment programme is continuing in 2018.

THE DONS FIELDS

- **Working interest at end of 2017:**
  - Don Southwest 60%
  - Conrie 60%
  - West Don 78.6%
  - Ythan 60%
- **Decommissioning liabilities:**
  - As per working interests
- **Floating production unit with subsea wells**

2018 and beyond

A shutdown is planned in Q3, the timing of which is driven by the third-party shutdown of the Cormorant Alpha pipeline, which is the Dons' oil export route. EnQuest will co-ordinate this shutdown with its own planned programme of maintenance work on the Dons.

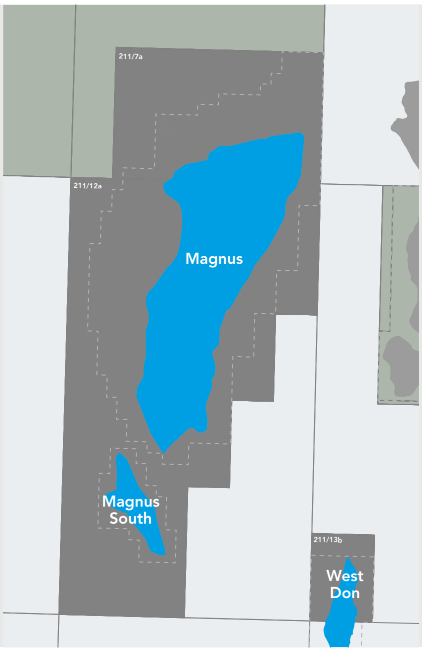
A water injection optimisation programme will be undertaken during 2018.

HEATHER/BROOM

- **Working interest at end of 2017:**
  - Heather 100%
  - Broom 63%
- **Decommissioning liabilities:**
  - Heather 37.5%
  - Broom 63%
- **Fixed steel platform**

2018 and beyond

Additional drilling is taking place on Heather. The H-67 sidetrack well was completed in March following initial spud in January, while further well abandonments will take place later in the year.



> The Sullom Voe Oil Terminal is strategically positioned to support East and West of Shetland fields, both now and in the future.

MAGNUS

- **Working interest at end of 2017:**
  – 25%
- **Decommissioning liabilities:**
  – 7.5% (as defined below)[1]
- **Fixed steel platform**

1 BP has retained the decommissioning liability in respect of the existing Magnus wells and infrastructure. EnQuest will pay BP additional deferred consideration by reference to 7.5% of BP's actual decommissioning costs on an after-tax basis. The additional consideration payable is capped at the amount of cumulative positive cash flows received by EnQuest from Magnus, SVT and the associated infrastructure assets.

2018 and beyond

The post-acquisition integration programme will continue into 2018, ensuring the team understands the Group's culture, processes and controls, and how the team can contribute to EnQuest's success.

Following an upgrade of the drilling rig, the 2018 drilling programme includes a well intervention plan (logging and potentially also perforations) then two production wells and one injection well set to come onstream during 2018. In early Q1, the first wireline intervention was successfully completed, prior to the spudding of the first new sidetrack well. New production efficiency enhancement opportunities are also being assessed.

SULLOM VOE OIL TERMINAL ('SVT')

A strategic infrastructure hub

SVT was commissioned in 1978 and receives East of Shetland ('EoS') oil via the Brent Pipeline System, which services Brent, Thistle, Northern Producer, Alwyn and TENCCA, and the Ninian Pipeline System, which services Ninian, Magnus and Heather. Since 1998, the terminal has also provided services to West of Shetland ('WoS') fields, including Schiehallion, Clair and Foinaven. Gas from these three fields is 'sweetened' at SVT before being shipped to Magnus, for Enhanced Oil Recovery and onward export. The terminal also now processes condensate from the Laggan-Tormore development.

Following the safe and efficient transfer of operatorship to EnQuest on 1 December 2017, steady operations have continued.

Building on the work that BP as operator and EnQuest and other owners have undertaken in recent years, EnQuest is targeting cost improvements and exploring terminal life extension opportunities which could benefit wider Northern North Sea and WoS operations.

EnQuest people

EnQuest has lots of great people and for me that's what makes it a brilliant environment to work in. Every department within the Company works closely together, resulting in robust decisions being made quickly. For the wells team, 2017 was a fantastic year and that's down to the people and the way in which the Company encourages us to work.

Andy King
Drilling Superintendent

CENTRAL NORTH SEA OPERATIONS

- **Daily average net production:**
  - 2017: 8,131 Boepd
  - 2016: 11,718 Boepd[1]

1 Includes net production from Scolty/Crathes since first oil on 21 November 2016, averaged over the 12 months to the end of December 2016.

2017 performance summary

Production in 2017 of 8,131 Boepd was 30.6% lower than 2016. This reduction was primarily driven by lower volumes at Alma/Galia reflecting Electric Submersible Pump ('ESP') related well shut-ins, storm-related production outages and natural declines. Field performance improved in the second half of the year following completion of the optimisation projects for power, produced water and sea water injection.

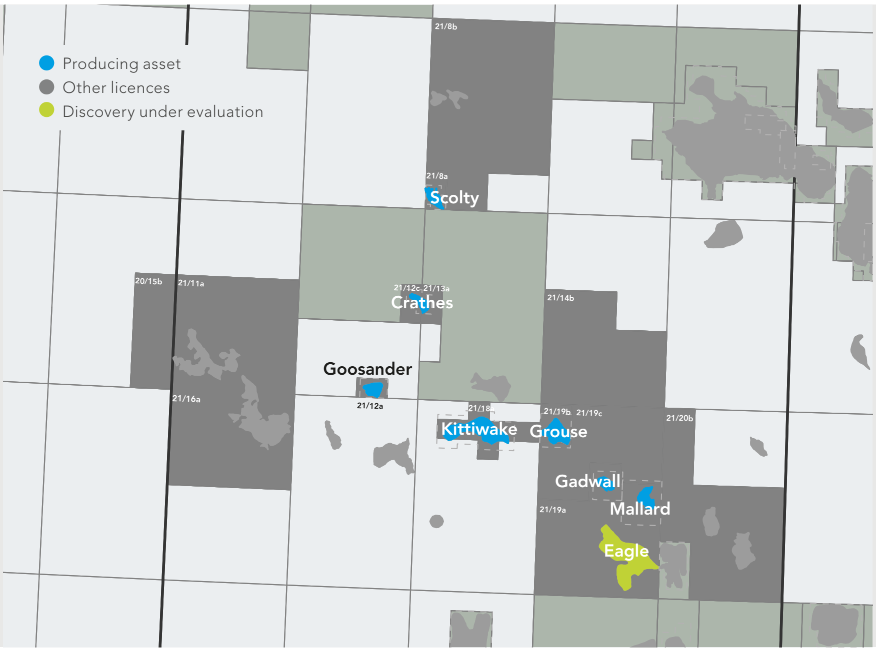
Good production has been delivered from the Greater Kittiwake Area ('GKA'), with high levels of plant uptime and production efficiency. The GKA work programme was focused on optimising production across the assets, including replacement of the Mallard/Gadwall water injection flowline and the E gas compressor crank shaft. The GKA team delivered a good HSE&A performance and was proud to have delivered 12 years of operations without an LTI.

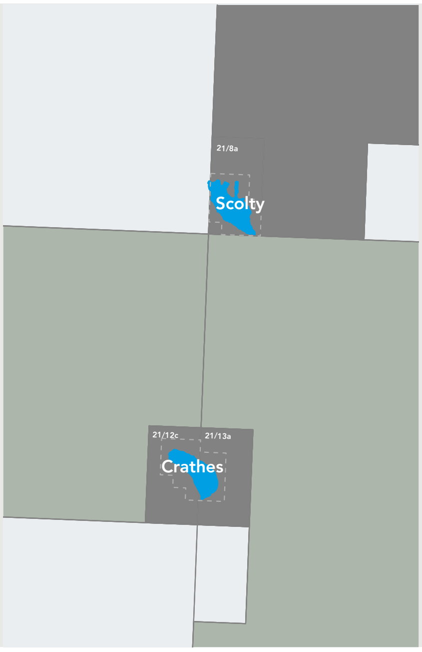
In line with previous updates, the full year contribution from Scolty/Crathes was limited due to wax in the flowline. These wax issues continue to be managed with chemical and lift gas treatments. Full year production uptime has been very high with the reservoir performing well. The unscheduled shutdown in December of the third-party operated Forties Pipeline resulted in the GKA and Scolty/Crathes fields being shut down for approximately three weeks, during which time opportunistic maintenance work was undertaken.

EnQuest people

I thoroughly enjoy working for EnQuest as you are empowered to use your creativity and drive to deliver results. This approach, coupled with EnQuest's size and structure, ensures that results are delivered efficiently and effectively to maximise the benefits to the business.

Donna Cameron
Senior Commercial Advisor





ASSET DATA AND 2018 WORK PROGRAMME

GREATER KITTIWAKE AREA ('GKA')

- **Working interest of 50% at end of 2017 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**

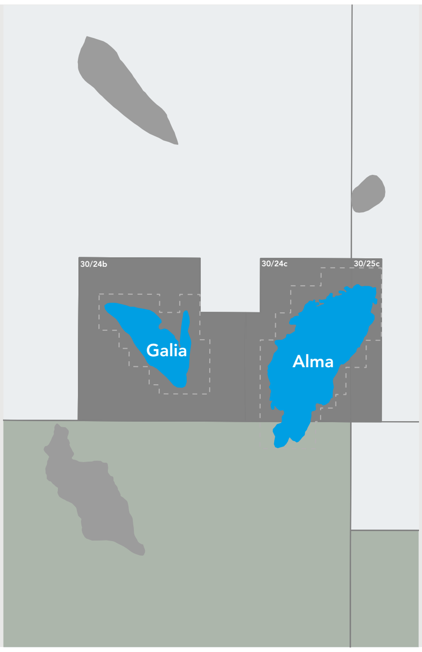
2018 and beyond
A maintenance shutdown is scheduled for Q3 2018. The work programme includes the installation of a new gas compressor.

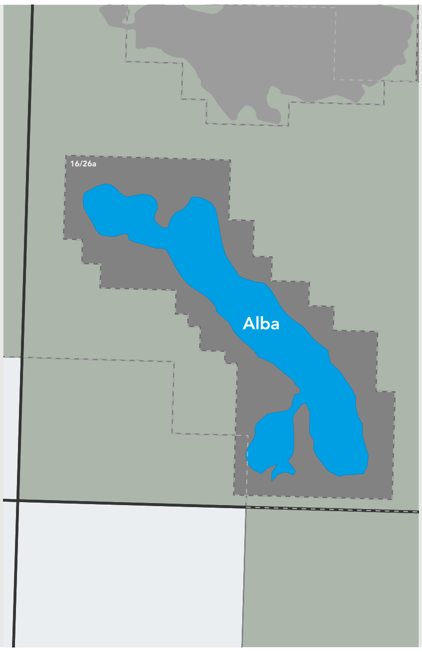
Evaluation of the potential from the Eagle discovery (100% EnQuest) is ongoing, with the licence having been extended in early 2018.

SCOLTY/CRATHES

- **Working interest of 50% at end of 2017 in each of:**
  - Scolty
  - Crathes
- **Decommissioning liabilities:**
  - As per working interests
- **Tied back to the Kittiwake platform**

2018 and beyond
A maintenance shutdown is scheduled for Q3 2018. EnQuest continues to undertake technical work with its partners in developing a permanent solution to debottleneck production in 2019.





ALMA/GALIA

- **Working interest at end of 2017:**
  - 65% in both fields
- **Decommissioning liabilities:**
  - As per working interest
- **Floating Production, Storage and Offloading ('FPSO') vessel with subsea wells**

2018 and beyond
A well workover campaign is scheduled for the summer of 2018, aiming to increase production levels by replacing three failed ESPs.

ALBA (NON-OPERATED)

The Alba oil field is operated by Chevron.

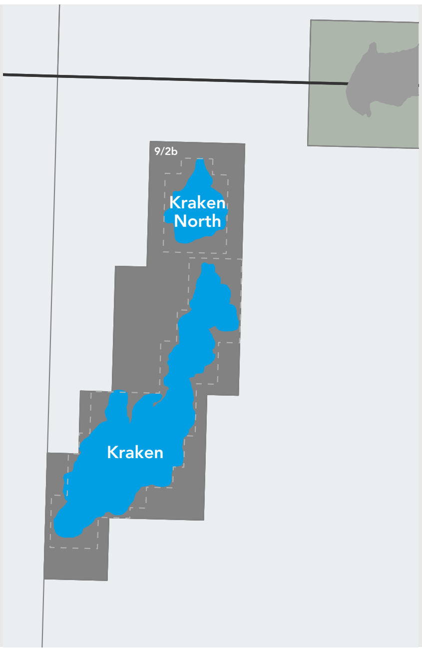
- **Working interest at end of 2017:**
  - 8%
- **Decommissioning liabilities:**
  - As per working interest
- **Fixed steel platform**

EnQuest people

At EnQuest, our strong team responds positively to a wide variety of challenges and opportunities, aiming to create optimum value. Regardless of where such challenges and opportunities arise, our organisation's agility will always prevail.

Johan Adam Leong
Operations Superintendent, Onshore Support

> Kraken is one of the largest developments in the UK North Sea in the last decade.
>
> **Richard Hall,** Head of Major Projects[1]



THE KRAKEN DEVELOPMENT

- **Daily average net production:**
  - 2017: 4,709 Boepd[2]
  - 2016: N/A

2 Net production since first oil on 23 June, averaged over the 12 months to the end of December 2017.

2017 performance summary

The FPSO arrived in the North Sea in early January and was on-station and securely moored by mid-February, with first oil delivered on 23 June 2017. The four wells from the first Drill Centre ('DC') and the three wells from DC2 produced at initial gross rates above expectations and with stabilised flow rates which confirmed the field development plan. Water injection wells performed in line with expectations.

During the period after first oil, prolonged commissioning of the complex Kraken FPSO vessel led to lower than expected production efficiency and to initial production volumes being lower than expected. EnQuest continued with its plan of bringing wells onstream in a phased manner, in line with good reservoir management practices aimed at maximising long-term productivity and value. The second processing train, which was brought online during November, assisted in bringing gross production rates to over 40,000 Bopd. Since late December, all DC3 wells have been brought online and operational uptime has improved.

Following the excellent delivery of the DC3 drilling programme and lower market rates for the remaining subsea campaign, full cycle gross Kraken project capital expenditure was further reduced during 2017.

Cargo offloads started in September and one was successfully completed in each subsequent month. The quality of the crude has been well received by buyers. By as early as November, a sale of cargo had been contracted at a discount to Brent of less than $5/bbl, this level of pricing being achieved earlier than targeted.

Asset data and 2018 work programme

- **Working interest at end of 2017:**
  - 70.5%[1]
- **Decommissioning liabilities:**
  - As per working interest
- **Floating Production, Storage and Offloading ('FPSO') vessel with subsea wells**

2018 and beyond

Average gross production for the first two months of 2018 was around 38,000 Bopd, and has reached the targeted 50,000 Bopd, with improving production efficiency as we continue to optimise performance. The DC4 well campaign, which was not anticipated to impact 2018 production, is expected to commence in the second half of 2018, coming onstream in 2019 to sustain production.

Extreme cold weather in early March resulted in Kraken being shut down. During this period, the Group has undertaken much of the previously planned April shutdown workscope and, as a result, this planned shutdown is no longer required. EnQuest continues to have a summer shutdown planned for one week in September.

In early 2018, EnQuest agreed renegotiated terms with Transocean for the Transocean Leader drilling rig, reducing both the contract duration and the day rates, saving c.$60 million of net cash payments for capital expenditure in 2019. Full cycle gross project capital expenditure has been reduced by approximately $100 million and is now expected to be c.$2.3 billion, more than 25% lower than originally sanctioned.

1 Following the successful delivery of the Kraken development, Richard Hall stepped down from EnQuest at the end of March 2018 and was succeeded by Andy Duncanson, who joined EnQuest as Kraken Area Manager.

"At PM8/Seligi, successful execution of planned well work and maintenance programmes underpinned strong production delivery from the field."

John Penrose, Managing Director, Malaysia

MALAYSIA OPERATIONS

- **Daily average net production:**
  - 2017: 8,937 Boepd (working interest): 5,884 Boepd (entitlement)
  - 2016: 9,148 Boepd (working interest): 6,426 Boepd (entitlement)

2017 performance summary

At PM8/Seligi, EnQuest continued to enhance production by investing in low cost well interventions and facility projects to improve production efficiency, including gas compression package major overhauls, well test improvements with Multi-Phase Flow Meters and process simplifications to improve overall reliability. In addition, robust maintenance and integrity inspection campaigns of platform structures, topsides and subsea pipelines continued to ensure safe operations.

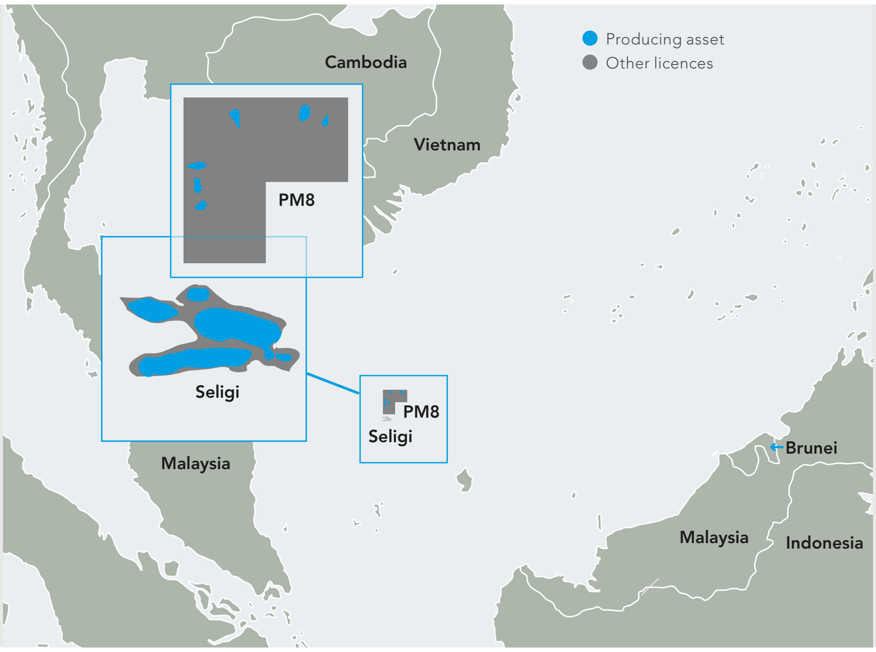
During 2017, the first new drilling projects were defined for execution in 2018, and significant progress was made on rebuilding of static and dynamic reservoir simulation models in support of longer term field redevelopment.

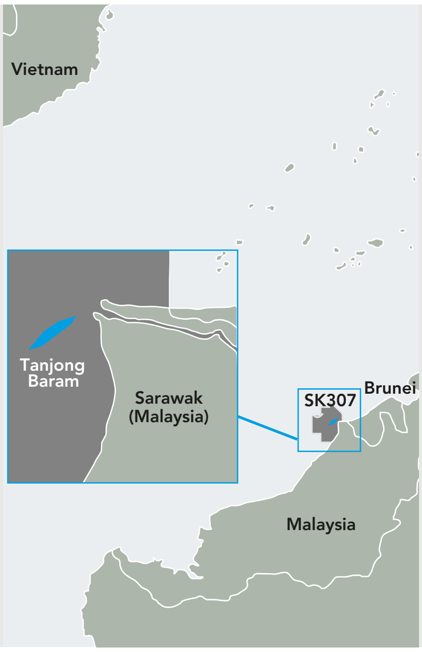
At Tanjong Baram, the focus remained on steady, safe and low-cost operations with high levels of production efficiency and uptime throughout the year.

EnQuest people

Being part of an evolving organisation with a leading edge is what excited me initially, and it still does. Every day, my work presents me with numerous ways to enhance my skills outside of joint venture accounting, allowing me to gain a better understanding of the wider operations and business.

Sindhu Nair
Joint Venture Accountant





ASSET DATA AND 2018 WORK PROGRAMME

PM8/SELIGI

- **Working interest at end of 2017:**
  - 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.

2018 and beyond

EnQuest will commence its first drilling campaign with two PM8/Seligi commitment wells (appraisal and development) to be drilled around the middle of 2018, with first production in Q3. Idle well restoration and surveillance campaigns are planned for Q2 and Q3. A maintenance shutdown is scheduled in Q3.

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.

TANJONG BARAM

- **Working interest at end of 2017:**
  - 70%
- **Decommissioning liabilities:**
  - None

2018 and beyond

Maintenance shutdowns are scheduled in Q1 and Q3.

Hydrocarbon assets

EnQuest's asset base as at 31 December 2017

Licence	Block(s)	Working interest (%)	Name
North Sea production and development			
P073	21/12a	50	Goosander
P193	211/7a & 211/12a	25	Magnus
P213[1]	16/26a	8	Alba
P236	211/18a	99	Thistle & Deveron
P236	211/18a	60	Don SW & Conrie
P236/P1200	211/18b & 211/13b	78.6	West Don
P238	21/18a, 21/19a & 21/19b	50	Kittiwake, Grouse, Mallard, Gadwall (Eagle[2])
P242	2/5a	100	Heather
P242/P902	2/5a & 2/4a	63	Broom
P475	211/19s	99	Thistle
P1077	9/2b	70.5	Kraken & Kraken North
P1107/P1617	21/8a, 21/12c & 21/13a	50	Scolty & Crathes
P1765/P1825	30/24c & 30/25c, 30/24b	65	Alma & Galia
P2137	211/18e, 211/19a & 211/19c	60	Ythan
Other North Sea licences			
P90[1]	9/15a	33.33	
P209[3]	9/28a	19	
P220/P250/P585	15/17n, 15/17a & 15/12b	60	
P1996	28/2b & 28/3b	100	
P2173	20/15b, 21/11a & 21/16a	50	
P2176	21/8b	100	
P2177	21/14b, 21/19c & 21/20b	50	
P2334	211/18h	60	
Malaysia production and development			
Tanjong Baram SFRSC[4]	Tanjong Baram	70	Tanjong Baram
PM8/Seligi[5]	PM8 Extension	50	Seligi, North & South Raya, Lawang, Langat, Yong and Serudon

Notes:
1 Non-operated
2 2016 discovery (100% EnQuest)
3 Since the end of 2017, EnQuest has relinquished the Crawford acreage and is in the process of withdrawing from the licence
4 Small Field Risk Service Contract. PETRONAS remains the asset owner
5 Official reference PM-8 Extension PSC, commonly referred to elsewhere as PM8/Seligi

Reserves and resources

EnQuest oil and gas reserves and resources at 31 December 2017

	UKCS		Other regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves (notes 1, 2, 3, 6 and 8)					
At 31 December 2016		199		17	215
Revisions of previous estimates		(13)		6	(7)
Acquisitions and disposals (note 7)		14			14
Production:					
Export meter	(10)		(3)		
Volume adjustments (note 5)	0		1		
Production during period:		(10)		(2)	(12)
Total at 31 December 2017 (note 8)		**190**		**21**	**210**
Contingent resources (notes 1, 2 and 4)					
At 31 December 2016		95		55	151
Revisions of previous estimates		10		12	22
Discoveries, extensions and additions					
Acquisitions and disposals (note 7)		(8)			(8)
Promoted to reserves					
Total contingent resources at 31 December 2017		**98**		**67**	**164**

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 underlying technical data underpinning proven and probable reserve profiles has 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 Proven and probable reserves: Acquisition of 25% equity in Magnus.
Contingent resources: Acquisition of 25% equity in Magnus offset by relinquishment of the Group's equity interests in the Crawford, Porter and Elke licences and expiry of 50% of the Kildrummy licence.
8 The above proven and probable reserves include 5.8 MMboe that will be consumed as lease fuel on the Kraken FPSO and fuel gas on Heather, Broom, West Don, Don SW, Conrie and Ythan.
9 The above table excludes Tanjong Baram in Malaysia.

The Group's net 2P reserves at the end of 2017 were 210 MMboe, down 2.4% from 215 MMboe at the end of 2016. This slight reduction was driven by:

- Production of 12 MMboe from existing assets and the Kraken development, which came onstream in Q2;
- Changes in long term assumptions;
- Lower production performance in the North Sea; partially offset by
- The acquisition of 25% equity in the Magnus oil field, which added 14 MMboe after accounting for 2017 production; and
- Better than expected reservoir and well intervention performance, idle well restoration work and clearly defined near term work programme in Malaysia.

Contingent resources at the end of 2017 were 164 MMboe, up 8.6% from 151 MMboe at the end of 2016. This increase was driven by:

- Changes to longer term field redevelopment plans at PM8/Seligi;
- The acquisition of 25% equity in the Magnus oil field; and
- Revisions associated with future development plans at other North Sea assets, including Kraken offset by the disposal of the Group's interests in the Crawford, Porter and Elke discoveries and the licence expiry for 50% of the Kildrummy discovery.

FOR MORE DETAILS
READ MORE ON PAGES 08 to 29

Financial Review

"With Kraken onstream and the acquisition of assets from BP completed, the Company is well placed to deliver value in the medium to long term."

Jonathan Swinney,
Chief Financial Officer

Financial overview

All figures quoted are in US Dollars and relate to business performance unless otherwise stated.

EnQuest has continued to focus on project execution and financial discipline. The Company delivered first oil from the Kraken development in June 2017 and completed the acquisition of initial interests in the Magnus oil field and Sullom Voe Oil Terminal ('SVT') through an innovatively structured transaction in December. EnQuest also continues to focus on cost control and cash management, and as operating cash flows grow and capital expenditure reduces, this should facilitate reductions in debt. These key milestones, along with the effective management of the Group's liquidity position, continue to ensure that the Company is well placed to deliver value to stakeholders in the medium and long-term.

Production on a working interest basis decreased by 5.9% to 37,405 Boepd, compared to 39,751 Boepd in 2016. Lower production at Alma/Galia and natural declines at the Group's other North Sea fields were partially offset by production from Kraken and a full year of production from Scolty/Crathes, which came onstream in November 2016.

Total revenue for 2017 was $635.2 million, 25.2% lower than 2016 ($849.6 million). This was as a result of lower realised oil prices, reflecting the forward prices available at the time at which the commodity hedge programme was implemented, combined with lower production. The commodity hedge programme resulted in realised losses of $20.6 million in 2017 compared to realised gains of $255.8 million in 2016.

The Group's operating expenditures of $349.3 million were 2.3% lower than 2016 ($357.4 million), but unit operating costs increased by 4.0% to $25.6/Boe as a result of lower production.

	Business performance	
	2017 $ million	2016 $ million
Profit from operations before tax and finance income/(costs)	**47.3**	237.1
Depletion and depreciation	**227.6**	244.6
Net foreign exchange (gain)/loss	**23.9**	(51.9)
Realised (gain)/loss on FX derivatives related to capital expenditure[1]	**4.8**	47.3
EBITDA	**303.6**	477.1

1 Realised (gain)/loss on FX derivatives is 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.

EBITDA for 2017 was $303.6 million, down 36.4% compared to 2016 ($477.1 million), primarily as a result of lower revenue.

Business performance loss after tax for 2017 was $33.6 million (2016: profit of $121.5 million). After re-measurements and exceptional items, the Group recorded a net loss of $60.8 million (2016: net profit of $185.2 million).

Reflecting the ongoing investments EnQuest has made to develop its assets, notably Kraken, EnQuest's net debt increased from $1,796.5 million at the end of 2016 to $1,991.4 million at 31 December 2017. This includes $90.5 million of interest that has been capitalised to the principal of the facilities pursuant to the terms of the Group's November 2016 refinancing ('PIK').

	Net debt/(cash)	
	31 December 2017 $ million	31 December 2016 $ million
Bonds[1]	**944.9**	868.7
Multi-currency Revolving Credit Facility[1] ('RCF')	**1,100.0**	1,037.5
Tanjong Baram Project Finance Facility[1]	**8.5**	24.9
Mercuria Prepayment Facility	**75.5**	–
SVT Working Capital Facility	**25.6**	–
Other loans[1]	**10.0**	40.0
Cash and cash equivalents	**(173.1)**	(174.6)
Net debt	**1,991.4**	1,796.5

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

There are no significant debt maturities until October 2018, when a single amortisation of the RCF of $270 million is due.

As at 31 December 2017, total cash and available facilities totalled $244.4 million, excluding $26.5 million of cash from the ring fenced working capital facility associated with SVT (2016: $330.9 million excluding $nil cash from the ring fenced SVT working capital facility).

UK corporate tax losses at the end of the year increased to $3,121.3 million. In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities for the foreseeable future. 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

Net working interest production of 37,405 Boepd was 5.9% lower than 2016 (39,751 Boepd). This reduction primarily reflects the impact of ESP performance issues at Alma/Galia, natural declines in the Group's assets where there has been no recent drilling, partially offset by the impact of commencement of production at Kraken in June 2017 and a full year of production from Scolty/Crathes, which achieved first oil in November 2016.

On average, market prices for crude oil in 2017 were higher than in 2016. The Group's blended average realised oil price excluding the impacts of hedging was $53.9/bbl for 2017, 21.8% higher than 2016 ($44.3/bbl). Revenue is predominantly derived from crude oil sales and for 2017, crude oil sales totalled $637.0 million, 10.2% higher than 2016 ($577.8 million). The increase in revenue reflected higher market prices for crude oil, partially offset by lower production. Revenue from the sale of condensate and gas was $2.8 million (2016: $3.6 million) while tariffs and other income generated $16.0 million (2016: $12.4 million). The Group's commodity hedges and other oil derivatives generated $20.6 million of realised losses (2016 income: $255.8 million), including $10.4 million of non-cash amortisation of option premiums (2016: $31.2 million).

Cost of sales

	Business performance	
	2017 $ million	2016 $ million
Production costs	**287.1**	279.7
Tariff and transportation expenses	**62.2**	58.1
Realised gain/(loss) on FX derivatives related to operating costs	**–**	19.6
Operating costs	**349.3**	357.4
Realised (gain)/loss on FX derivatives related to capital expenditure	**4.8**	47.3
(Credit)/charge relating to the Group's lifting position and inventory	**(20.4)**	2.8
Depletion of oil and gas assets	**223.1**	240.6
Other cost of sales	**12.7**	5.4
Cost of sales	**569.5**	653.5
Operating cost per barrel[1]	**$/Boe**	$/Boe
– Production costs	**21.0**	20.4
– Tariff and transportation expenses	**4.6**	4.2
	25.6	24.6

1 Calculated on a working interest basis.

Cost of sales were $569.5 million for the year ended 31 December 2017, 12.9% lower than 2016 ($653.5 million). Operating costs decreased by $8.1 million, reflecting the benefit of a weaker Sterling exchange rate and net lease charter payment credits of $19.5 million arising from the non-availability of the Kraken FPSO, partially offset by a full year of operations at Scolty/Crathes. The Group's average unit operating cost has increased by 4.0% to $25.6/Boe, primarily due to the 5.9% reduction in production volumes. At 31 December 2017, the Group had moved to a net underlift position compared to the prior year end net overlift position, resulting in a $20.4 million credit to cost of sales (2016: charge of $2.8 million). The Group's change in lifting position and inventory reflected the unwind of the overlift balance that had accrued at 31 December 2016, primarily on Thistle and GKA, partially offset by the unwind of underlift at Alma/Galia and the build up of an overlift at Scolty/Crathes.

Depletion expense of $223.1 million was 7.3% lower than 2016 ($240.6 million), reflecting lower production in 2017. The average unit depletion rate decreased slightly from $16.6/Boe to $16.3/Boe.

Other cost of sales of $12.7 million were higher than 2016 ($5.4 million), principally driven by the impact of higher oil prices on the supplemental payment due on profit oil in Malaysia.

General and administrative expenses

General and administrative expenses were $0.8 million (2016: $10.9 million), reflecting the Group's ongoing efforts to reduce costs across the organisation.

Other income and expenses

Net other expenses of $17.6 million (2016: income of $51.9 million) primarily comprises net foreign exchange losses, which relate to the revaluation of Sterling denominated amounts in the balance sheet following the strengthening of Sterling against the US Dollar, offset by one-off general and administration recovery impacts. The prior year income comprised almost entirely of net foreign exchange gains.

Finance costs

Finance costs of $149.0 million were 21.9% higher than 2016 ($122.2 million). The charges include $137.9 million of bond and loan interest payable (2016: $110.5 million), $13.5 million unwinding of discount on provisions and liabilities, largely in respect of decommissioning (2016: $14.2 million), $2.8 million amortisation of arrangement fees for the bank facilities and bonds (2016: $5.9 million) and other financial expenses of $5.9 million (2016: $10.5 million), primarily commitment and letter of credit fees. The Group capitalised interest of $42.3 million in 2017 in relation to the interest payable on borrowing costs on its capital development projects, primarily the Kraken development (2016: $55.3 million).

In June 2017, in line with first oil from Kraken, the Group's lease for the FPSO vessel from Armada Kraken PTE Limited ('BUMI') commenced. Finance lease interest of $31.3 million has been recognised within finance costs. In 2016, $36.5 million of finance costs related to the amortisation of put option premium related to the Group's oil hedge portfolio were recognised. No corresponding charge existed in 2017 as no put options had been used to hedge 2017 production.

Finance income

Finance income of $2.2 million (2016: $1.4 million) includes $1.8 million from the unwind of the discount on financial assets (2016: $1.0 million) and $0.4 million of bank interest receivable (2016: $0.3 million).

Taxation

The tax credit for 2017 of $66.0 million (2016: $5.2 million tax credit), excluding exceptional items, is mainly due to the Ring Fence Expenditure Supplement ('RFES') on UK activities.

Remeasurement and exceptional items

Revenue included unrealised losses of $7.7 million in respect of the mark to market movement on the Group's commodity contracts (2016: unrealised loss of $51.5 million).

Non-cash impairment charge on the Group's oil and gas assets arising from changes in assumptions combined with lower production performance in the North Sea totalled $172.0 million (2016: reversal of non-cash impairment of $147.9 million).

Other income and expense included the recognition of the accounting for the excess of fair value over consideration of $16.1 million associated with the Thistle decommissioning option and $10.3 million associated with the accounting impact of the acquisition of initial interests in assets from BP and the related discounted purchase option valuation of $22.3 million (see note 29). Other items include a $1.3 million gain from the disposal of Ascent Resources loan notes, a $10.3 million charge arising from a cost recovery settlement in Malaysia, a $6.4 million charge arising from the cancellation of contracts and a $2.8 million provision in relation to restricted cash.

A tax credit of $117.0 million (2016: charge of $37.3 million) has been presented as exceptional, representing the tax impact of the above items, together with a net write-back of $47.2 million of tax losses which had been previously impaired.

Earnings per share
The Group's reported basic loss per share was 5.4 cents (2016: earnings per share of 22.7 cents) and reported diluted loss per share was 5.4 cents (2016: earnings per share of 22.1 cents).

Cash flow and liquidity
Net debt at 31 December 2017 amounted to $1,991.4 million, including PIK of $90.5 million, compared with net debt of $1,796.5 million at 31 December 2016, including PIK of $27.7 million. The Group has remained in compliance with financial covenants under its debt facilities throughout the year and managing ongoing compliance remains a priority. Where necessary or appropriate, the Group has and would seek waivers and/or consents. The movement in net debt was as follows:

Net debt 1 January 2017	**(1,796.5)**
Operating cash flows	301.8
Cash capital expenditure	(367.6)
Proceeds on disposal of Ascent Resources loan notes	3.6
Net interest and finance costs paid	(52.0)
Non-cash capitalisation of interest to principal of bond and credit facility ('PIK')	(62.8)
Other movements, primarily net foreign exchange loss on cash and debt	(17.9)
Net debt 31 December 2017	**(1,991.4)**

The Group's reported operating cash flows for the year ended 31 December 2017 were $301.8 million, down 20.5% compared to 2016 ($379.5 million). The main driver for this reduction is the reduced contribution from commodity price hedging, where total cash flows received in 2017 were $3.6 million as compared to $198.8 million for 2016. This reduced cash flow was partially offset by the impact of higher market oil prices on revenue and reduced operating and general and administrative expenses.

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

	Year ended 31 December 2017 $ million	Year ended 31 December 2016 $ million
North Sea development expenditure	**355.3**	592.2
Malaysia development expenditure	**3.1**	8.2
Exploration and evaluation capital expenditure	**9.2**	8.9
Other capital expenditure	**–**	1.4
Other proceeds	**–**	(1.5)
	367.6	609.2

In the North Sea, a total of $252.2 million was spent during the year on the Kraken development, primarily related to drilling and completing 14 wells across Drill Centres ('DC')/2 and 3. Excellent drilling performance resulted in the delivery of the wells ahead of schedule. In early 2018, EnQuest also agreed renegotiated terms for the drilling rig, reducing both the contract duration and day rates. Full cycle gross project capital expenditure is now expected to be c.$2.3 billion. The remaining 2017 cash capital expenditure is primarily the settlement of deferred invoices in respect of the Alma/Galia and Scolty/Crathes developments and the Eagle discovery.

Balance sheet
The Group's total asset value has increased by $1,112.5 million to $5,038.5 million at 31 December 2017 (2016: $3,926.0 million), mainly attributable to the recognition of the $772.0 million Kraken FPSO finance lease asset in property, plant and equipment ('PP&E'). Net current liabilities have increased to $377.9 million as at 31 December 2017 (2016: $45.1 million), primarily driven by the scheduled $270 million RCF amortisation due in October 2018 and the impact of the Kraken FPSO finance lease commitments due within one year.

Property, plant and equipment ('PP&E')
PP&E has increased by $885.2 million to $3,848.6 million at 31 December 2017 from $2,963.4 million at 31 December 2016 (see note 10). This increase is explained by the recognition of the Kraken FPSO finance lease in June 2017 of $772.0 million, capital additions to PP&E of $323.6 million, additions of $124.5 million for the acquisition of interests in the Magnus oil field, SVT and associated infrastructure assets (see note 29), a net increase of $66.2 million for changes in estimates for decommissioning and other provisions, including the KUFPEC cost recovery provision, offset by depletion and depreciation charges of $229.2 million and non-cash impairments of $172.0 million.

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

	2017 $ million
Kraken	**275.8**
Thistle/Deveron	**15.1**
Other North Sea	**30.4**
Malaysia	**2.3**
	323.6

Intangible oil and gas assets
Intangible oil and gas assets marginally increased to $52.1 million at 31 December 2017 from $50.3 million at 31 December 2016 (see note 12).

Trade and other receivables
Trade and other receivables have increased by $25.1 million to $227.8 million at 31 December 2017 compared with $202.7 million at 31 December 2016. The increase relates mainly to the timing of crude oil sales increased underlift and higher oil prices, partially offset by other working capital movements (see note 15).

Cash and net debt[1]
The Group had $173.1 million of cash and cash equivalents at 31 December 2017 and $1,991.4 million of net debt, including PIK of $90.5 million (2016: $174.6 million of cash and cash equivalents and $1,796.5 million of net debt, including PIK of $27.7 million). Net debt[1] comprises the following liabilities:

- $224.1 million principal outstanding on the £155 million retail bond (2016: $191.3 million) including $14.9 million of interest capitalised as an amount Payable In Kind ('PIK') in the year;
- $720.8 million principal outstanding on the high yield bond, including capitalised interest (PIK) of $70.8 million pursuant to the Restructuring (2016: $677.5 million and $27.5 million respectively);
- $1,100.0 million carrying value of credit facility, comprising amounts drawn down of $1,095.2 million and PIK interest of $4.8 million (2016: $1,037.5 million comprising amounts drawn down of $1,037.3 million and PIK interest of $0.2 million);
- $25.6 million relating to the SVT Working Capital Facility (2016: $nil);
- $75.5 million relating to the Mercuria Prepayment Facility (2016: $nil);
- $10.0 million outstanding from a trade creditor loan (2016: $40.0 million); and
- $8.5 million principal outstanding on the Tanjong Baram Project Finance Facility (2016: $24.9 million).

1 Net debt excludes accrued interest and the net-off of unamortised fees (see note 19 of the consolidated financial statements).

Provisions
The Group's decommissioning provision increased by $145.4 million to $639.3 million at 31 December 2017 (2016: $493.9 million). The movement is explained by additions to Kraken of $63.6 million based on drilling and developments carried out in the period, an increase of $80.9 million due to changes in estimates (including the impact of oil prices and foreign exchange rates) and $11.5 million unwinding of discount, partially offset by reductions of $10.6 million for decommissioning carried out in the period.

Other key movements in provisions during the period include the addition of $66.6 million of outstanding contingent consideration for the acquisition of the Magnus oil field, SVT and associated infrastructure assets from BP completed in December 2017 (see note 29) and $10.3 million for PM8/Seligi cost recovery. This is largely offset by a $77.8 million reduction for changes in estimates and the fair value of cost recovery provisions, combined with payments of $9.0 million contingent consideration to Centrica pursuant to the Greater Kittiwake Area acquisition agreement and $5.5 million for the final settlement due to Cairn under the carry agreement (see note 22).

Income tax

The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2017, which remains unchanged from 31 December 2016. The income tax asset at 31 December 2017 represents UK corporation tax receivable in relation to non-upstream activities and the income tax payable is in relation to the Group's activities in Malaysia (see note 7).

Deferred tax

The Group's net deferred tax asset has increased from $191.7 million at 31 December 2016 to $335.6 million at 31 December 2017. The increase is mainly due to the RFES, together with the recognition of $9.7 million of previously derecognised tax losses. Total UK tax losses carried forward at the year end amount to $3,121.3 million (2016: $2,893.7 million) (see note 7).

Trade and other payables

Trade and other payables of $446.1 million at 31 December 2017 are $6.7 million lower than at 31 December 2016 ($452.8 million). $367.3 million are payable within one year (2016: $410.2 million) and $78.8 million are payable after more than one year (2016: $42.6 million). The decrease in current payables mainly reflects the settlement of deferred invoices and an $11.9 million reduction in the overlift position, offset by accruals (see note 23).

Other financial liabilities

Other current financial liabilities have increased by $16.9 million to $61.2 million. The increase primarily relates to mark to market movements on the Group's commodity derivatives following the strengthening of the oil price, waiver fees payable to credit facility lenders due in March 2018 (previously non-current) and 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 (previously non-current).

Other non-current financial liabilities of $7.1 million (2016: $19.8 million) relate mainly to the Magnus field liabilities acquired as part of the transaction that completed in December 2017 (see note 20).

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.

In November 2017, the Group entered into an 18-month collar structure for the Mercuria Prepayment Facility of $80 million (see note 19). Repayment will be in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 mmbbls of oil. EnQuest will receive the average Brent price over each month subject to a floor of $45 per barrel and a cap of approximately $64 per barrel. Losses totalling $5.2 million were included within unrealised revenue in the income statement.

The marking to market of the Group's open contracts as at 31 December 2017 gave rise to a loss of $29.2 million in respect of fixed price swap contracts for 4.15 MMbbls of 2018 production at a weighted average price of $59.1/bbl (2016: loss of $40.5 million in respect of fixed price swap contracts for 5.99 MMbls of 2017 production at a weighted average price of $51.3/bbl).

During 2016, the Group entered into commodity hedging contracts to hedge a portion of its 2017 production against fluctuations in oil prices. This hedging generated cash outflows of $0.9 million (including $2.0 million outflow in respect of the settlement of December 2016 hedges) while revenue and other operating income included a loss of $31.1 million during 2017. These amounts were mostly in respect of the settlement of swaps in respect of 6.0 MMbbls, plus the maturity of certain other commodity derivatives. The Group's marketing and trading activities, which are designed to manage price exposures on certain individual cargos, generated $6.7 million of cash, and contributed $10.6 million to revenue and other operating income.

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.

During 2017, the Group has continued to use an exchange structure to manage risk. The first exchange structure was entered into in 2016 and allowed the counterparty to elect to sell £47.5 million to EnQuest at an exchange rate of $1.4:£1, or purchase 1.3 MMbbls of oil at $58/bbl. This structure expired on 30 June 2017. The second exchange structure allowed the counterparty to elect to sell £66.0 million to EnQuest at an exchange rate of $1.2:£1 or purchase 1.5 MMbbls of oil at $60/bbl. This structure expired on 31 December 2017. As a result of these exchange structures, $4.4 million was recognised within other foreign currency contracts and no costs within other operating income during the year (2016: $9.3 million and $nil respectively).

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 that 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 project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner. Management has also continued to take action to implement cost saving programmes to reduce planned operational, general and administrative and capital expenditures in 2017 and 2018. At 31 December 2017, the Group had cash and available bank facilities of $244.4 million, excluding $26.5 million of cash from the ring fenced working capital facility associated with SVT.

The Group's business plan ('Base case'), which underpins this assessment, assumes Kraken production rates are in line with the Group's production guidance. The Base case has been updated for the forward curve and uses an oil price assumption of c.$67/bbl throughout 2018 and c.$63/bbl for the first quarter of 2019. This has been further stress tested under a plausible downside case ('Downside case') as described in the viability statement. Both cases reflect the bank debt amortisation profile due in the going concern period. The Directors consider the Base case and Downside case to be an appropriate basis on which to make their assessment.

The Group has historically reviewed farm down options and continues to do so. The Base case and Downside case indicate that the Company is covenant compliant and 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 liquidity shortages or covenant breaches due to events not included in the Base or Downside cases, the Directors believe that a number of mitigating actions, including assets sales or other funding options, can be executed successfully in the necessary timeframe to meet debt repayment obligations as they become due and in order to maintain liquidity. Nevertheless, there remains the risk that the Group is unable successfully to achieve farm down options, other potential asset sales or other funding options. The risk represents a material uncertainty that may cast doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Notwithstanding the material uncertainty described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, 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 2021. This assessment has taken into account the Group's financial position as at March 2018, the future projections and the Group's 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 largely repaid. 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 2021.

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 business plan assumptions.

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 period being aligned to a recent forward curve. The Base case reflects significant steps already undertaken to reduce operating and capital expenditure.

For the current assessment, the Directors also draw attention to the specific principal risks and uncertainties (and mitigants) 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

A material decline in oil and gas prices would adversely affect the Group's operations and financial condition. To mitigate oil price volatility, the Directors have hedged c.7.5 million barrels of 2018 production at an average price of c.$62/bbl. As further mitigation, the Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Kraken production and related asset disposal

All production and injector wells on the first three Drilling Centres ('DC') are onstream and are, in aggregate, operating as per the Field Development Plan ('FDP'). Both production processing trains are also onstream. Kraken gross production averaged around 38,000 Bopd (gross) in the first two months of 2018 and has already delivered the targeted 50,000 Bopd (gross) as planned. The remaining development wells (DC4) will be drilled from Q4 2018 and onstream from Q1 2019, concluding the execution of the FDP. On the basis of this performance, and subject to delivering on the Group's plans to further optimise production and improving plant uptime, EnQuest expects to deliver sustained production rates. The Group has historically reviewed farm down options and continues to do so.

Access to funding

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

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 committed $1.125 billion Tranche A Term Loan and a further Tranche B $75 million Revolving Credit Facility (collectively the 'Facility'). Across the Facility, $98 million remains available at 31 December 2017.

In addition, the maturity dates of the $721 million high yield bond and the £166 million retail notes (both figures inclusive of the PIK notes), have been amended to April 2022, with an option exercisable by the Group (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 Facility is not fully repaid or refinanced by October 2020.

A further condition to the payment of interest on both the high yield bond and retail notes 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.

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% increase in operating costs except for fixed costs related to the Kraken FPSO; and
- a lower value achieved from the sale of an interest in Kraken.

A scenario has been run illustrating the impact of the above risks on the Base case. This plausible Downside case indicates no mitigating actions need be undertaken for the Group to be viable in the three-year period.

Notwithstanding the principal risks and uncertainties described above, after making enquiries and, assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the viability period ending March 2021. Accordingly, the Directors therefore support this viability statement.

Corporate responsibility review

In our drive for operational excellence we remain focused on continual improvement through the early detection and resolution of issues.

Sandy Fettes, Head of Wells Delivery & Interim Head of HSE&A

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

The EnQuest Board receives regular information on the HSE&A performance of the Company, and specifically monitors health, safety and environmental reporting at each Board meeting. EnQuest delivered on its commitment to continual improvement in HSE&A performance, achieving good year-on-year improvement in 2017 with excellent results in many areas and meeting the majority of our performance targets.

In occupational safety, our Lost Time Incident ('LTI') performance remained strong in both Malaysia and the UK. Our Heather, Thistle, Kittiwake and Northern Producer assets in the North Sea all recorded an LTI-free year. Excellent overall workplace safety performance was achieved across our Malaysia assets, also with zero LTIs. In 2017, we were pleased that PM8/Seligi achieved seven years without an LTI while our Kittiwake platform recorded 12 years without an LTI. These milestones were achieved against a backdrop of ongoing high levels of activity on the assets.

We had no reportable hydrocarbon releases during 2017 on our UK operated assets, having increased our focus on asset integrity and implemented hydrocarbon prevention plans across our sites.

Leading targets such as safety-critical maintenance deferrals, leadership site visits and close out of actions from incidents and audits were all met. Regulator ratings also improved significantly in both Malaysia and the UK.

Evidence of our continued commitment to improvement was demonstrated through the following outcomes:

UK North Sea:
- Continued focus on coaching our workforce to identify, understand and control Major Accident Hazards. Underpinning this workplace coaching were workshops held at DNV GL Spadeadam which demonstrate the potential consequences of hydrocarbon releases;
- Further developing the capabilities of elected Safety Representatives and Environment Representatives through structured engagement sessions;
- Embedding our Life Saving Rules to underline the importance of maintaining standards and encouraging procedural compliance;
- Demonstrating our commitment to industry simplification and standardisation initiatives by adopting industry standard tools for observational safety and tool-box talks;
- Transitioning to a new control of work tool which enhances both system and behavioural compliance; and
- Safely transitioning the Magnus and Sullom Voe Oil Terminal ('SVT') assets from BP, ensuring that all required processes, licences and consents were in place and available for day one operations.

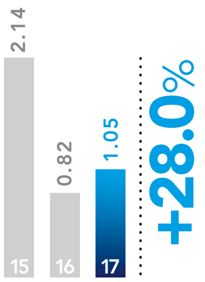
Malaysia:
- Producing the first operations HSE&A case for PM8/Seligi;
- Continuous improvement in our external audit compliance with positive results from the completion of an external audit by both PETRONAS and the Department of Occupational Safety and Health;
- Ongoing attention to the close-out of external regulator audit findings with significant improvements to asset integrity and management systems;
- Embedding an internal audit process within EnQuest Malaysia after its initial implementation in Q4 2016;

EnQuest people

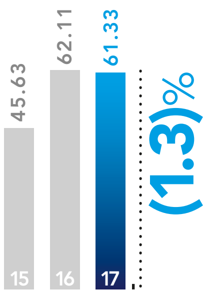
Working for EnQuest over the last five years has given me the opportunity to witness first-hand the drive and energy to grow and acquire knowledge to be a leader in the oil and gas sector. Experiencing the evolution and continuous improvement of the Company makes me proud to be an employee. EnQuest has supported and developed me throughout my career within the HSE&A department, initially working as an advisor onshore and now offshore on Heather Alpha. The platform embraces EnQuest values and promotes an open reporting culture where everyone's voice is valued.

Kirsty Hart
HSEQ Advisor, Heather

UK North Sea Lost Time Incident frequency[1]



Greenhouse gas emissions intensity ratio[2]



1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours).

2 Ratio expressed in terms of kilogrammes of CO^2 emissions per EnQuest produced barrel of oil equivalent and represents combined Scope 1 and Scope 2 emissions. See page 91 for more information.

CONTINUED COMMITMENT

- Demonstrating a commitment to safety through a range of contractor safety management initiatives, including the inaugural annual contractor safety forum, held by EnQuest in Malaysia; and
- Implementing a number of safety awareness programmes, such as Monsoon Safety Awareness.

We also completed comprehensive UK and Malaysian HSE&A audit programmes, with outcomes fed into our 2018 Continual Improvement Programme. This underlines our focus upon improvement through the early detection and resolution of issues.

People

The acquisition of the Magnus oil field and SVT assets from BP, announced in January 2017 and completed in December 2017, meant that our UK staff workforce had approximately doubled by the end of the year. Consequently, much of the focus during the year was on the efficient transition of employees to EnQuest and safe operations from day one. Upon completion, 320 staff joined the North Sea business in line with Transfer of Undertakings Protection of Employment ('TUPE') Regulations, with a further 100 contractors transferring over at the same time. The transition has been complex and the transition team have systematically worked through all matters arising with BP to ensure a smooth transfer, including consultation with transferring staff during 2017. Inductions were run for all transferring staff from September to ensure that all those impacted understood the EnQuest business, how we work and how they can contribute to EnQuest's success. Combining these staff groups is a great opportunity to bolster the North Sea business and add depth, particularly offshore.

The successful transition was undertaken alongside a continued focus on cost management, with the teams undertaking a review of activities which could be moved to Dubai. Following the successful transfer of accounts payable and purchasing support in prior years, the Finance Joint Venture team has been moved to Dubai, with the team in place and fully operational ahead of the year end close out period.

This year also saw the introduction of Gender Pay legislation in the UK which requires companies to publish data on a number of predetermined measures. EnQuest is compliant with these measures and the associated timelines, publishing its Gender Pay report on its website, www.enquest.com.

The Gender Pay gap is not the same as equal pay, which refers to whether a man and a woman are receiving equal pay for doing equal work and it is important to clarify this point. The Gender Pay gap is there to compare the average pay of all women compared to the average pay of all men in the same organisation – regardless of role, seniority, experience or contracted working hours. Our Gender Pay gap results are influenced by factors such as societal norms, more males than females working in the oil and gas sector (particularly offshore) and individual choices in terms of self-selected flexible working practices. Having a Gender Pay gap does not mean that the pay practices at EnQuest are unequal. We do not believe that we have an equal pay issue within EnQuest.

The information collected was based on the relevant pay period of:

- The month of April 2017, for the purposes of calculating salary earned; and
- The year April 2016 to March 2017 for the purposes of calculating bonus paid.

The results show that the average rate of total pay for women is 38.7% below the average rate of total pay for men and that the average bonus gap for women is 44.9% below the average bonus paid for men. On the comparison of median total pay and bonus, the percentage difference declines to 31.6% on pay and 23.1% on bonus. During the period

Corporate Responsibility Review CONTINUED

April 2016 to March 2017, almost an equal percentage of women and men received a bonus (96% of women and 95% of men).

The Company conducts regular benchmarking exercises to ensure that salaries are comparable, regardless of gender, and that the recruitment process is fair and balanced. However, we recognise that we need to work at addressing our Gender Pay gap over the coming years. Whilst we recognise that any improvements of this imbalance cannot be resolved immediately, we are committed to narrowing the Gender Pay gap in EnQuest over time.

We have continued to work on ensuring we have the right capabilities across the organisation to deliver our business plan. As a result, we focused our recruitment effort in certain functions, including Commercial, Subsurface and Finance. Competency levels offshore remain a priority in both the UK and Malaysia, with ongoing assessments being undertaken to ensure that the Group has the required capabilities in place. With the safety of our people and those we work with a priority, we have begun embedding a new set of life saving rules across our offshore assets in the North Sea. We remain committed to ensuring that staff can optimise their performance through a combination of cascaded objectives at the beginning of the year that align to our wider Group goals, followed by regular line management feedback and conversations to measure progress towards these goals. During the year, we have continued to work on succession planning for critical roles in the UK and Malaysia, with further work planned to continue in this area in 2018.

In 2017, we have also invested time to understand the culture of our business. This has been achieved through an online survey which was followed up by a number of focus groups facilitated by an independent specialist company. These focus groups included a sample of our employees and service providers, covering both onshore and offshore groups. We have worked through this feedback to identify our next steps as we evolve our culture and ensure that EnQuest is a great place to work. During this time, we have continued to run our weekly business briefings and town halls and we will be putting in place a forum whereby employees and the Board will have the opportunity for greater interaction.

EnQuest recognises the value of diversity in its workforce and is committed to diversity, including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams and will continue to be 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.

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.

Community

EnQuest remains fully committed to active community engagement programmes across the Group, developing strong relationships with partner organisations in the North Sea and Malaysia.

EnQuest is also proud to be an active member of Oil Spill Response Limited ('OSRL'), the largest international industry-funded cooperative which exists to respond to oil spills wherever in the world they may occur, by providing preparedness, response and intervention services.

North Sea

We have continued to raise funds for Archway, an Aberdeen-based charity which supports young people and adults with learning disabilities. In 2017, we donated more than £7,500 through team events and activities, including participation in the Ride the North and Great Aberdeen Run. This brings our total fundraising efforts for the organisation to £170,000 since we began supporting them in 2012. Our keen cyclists who took part in the Ride the North event also raised £2,580 for the Sandpiper Trust which promotes and supports initiatives that help improve immediate medical care in Scotland.

EnQuest maintained its support to Tullos Primary School, also in Aberdeen. Our strong relationships with companies in our supply chain enables us to give pupils an insight into the career opportunities that the oil and gas industry can offer them in the future. Events included a trip to Babcock's facilities in Aberdeen, where the young people had the opportunity to sit in the helicopters used to transport workers offshore and also to meet pilots and engineers. Pupils also visited remotely operated vehicle provider i-Tech, a division of Subsea 7. EnQuest hosted a careers day for pupils at our Annan House office in Aberdeen, introducing the pupils to colleagues from across our technical and functional teams.

Our onshore and offshore charity committees also support many local organisations across the UK throughout the year. One of the most popular fundraising activities offshore is through the 'Greenie Charts', with teams raising funds through delivering strong safety and environmental performance. The offshore teams themselves nominate which charities will receive a share of the funds raised, and in 2017, the Royal National Lifeboat Institution, the Children's Hospice Association Scotland and the Brain Tumour Charity were among those who benefited from their focused efforts.

Having taken operatorship of the Sullom Voe Terminal ('SVT') in late 2017, we look forward to continuing to support local charities and community events.

We are also committed to the continuing protection of the environment around the terminal through our support of the Shetland Oil Terminal Environmental Advisory Group ('SOTEAG'). Over the past 30 years, SOTEAG's high quality marine environmental management has helped ensure that Sullom Voe's special geographical and biological features remain unspoilt.

Malaysia
Our team in Malaysia continue to be committed to supporting their local communities. As part of our community service project for 2017, EnQuest Petroleum Production Malaysia organised an event at District 21 Putrajaya with Good Samaritan Home. More than 100 children joined Good Samaritan care-takers, EnQuest employees and their families for a day of fun activities, games and a special lunch. A wide range of donations were also made for the benefit of the Home, including furniture, kitchen equipment, a water dispenser and phones. The children delighted their visitors by performing a memorable dance.

Business conduct

EnQuest has a Code of Conduct that it requires all personnel to be familiar with. 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 conducting ourselves ethically and with integrity and to comply with all applicable legal requirements.

Our employees and everyone that we work with help to create and support our reputation, which in turn underpins our ability to succeed. 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, anti-slavery, 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 and specific policies and procedures which support it (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 key risk areas. Whilst this provides some formal assurance as to how the 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 remains an area of increased focus for the Group. Please see pages 40 to 47 for further information on how the Group manages its key risk areas.

The Code of Conduct also includes details of the independent reporting line through which any concerns related to the Group's practices or any suspected breaches of the Group's 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. Concerns raised in relation to potential conflicts of interest and safety practices, as well as more routine interfaces with regulatory authorities, are also reported to the Board and addressed.

The Code of Conduct includes a confirmation of EnQuest's commitments to adhere to applicable tax laws (including the corporate offence of failure to prevent the criminal facilitation of tax evasion) 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 has published its modern slavery statement on its website at www.enquest.com, under corporate responsibilty.

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, under corporate responsibility. This is updated as required during the year.

Risks and uncertainties

Management of risks and uncertainties

The Board has articulated EnQuest's vision to be the operator of choice for maturing and underdeveloped hydrocarbon assets. As EnQuest moves from a period of heavy investment to one focused on realising value from existing resources, it will focus on driving improved cash flow and managing its capital structure and liquidity.

EnQuest seeks to balance its risk position between investing in activities that can drive growth with the appropriate returns, including any appropriate market opportunities that may present themselves, and the continuing need to remain financially disciplined. This financial discipline drives cost efficiency and cash flow generation to reduce the Group's debt. In this regard, the Board has developed certain strategic tenets to guide the Company during the current phase of its evolution which link with its strategy and appetite for risk. Broadly, these reflect a focus by the Company on:

- Maintaining discipline across metrics such as financial headroom, leverage ratio and gearing;
- Enhancing diversity within our portfolio of assets, with a focus on underdeveloped producing assets and maturing assets with investment potential; and
- Ensuring the quality of the investment decision-making process.

In pursuit of its 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 Board-approved overarching statement of risk appetite (which has been further refined in light of the Company's strategic tenets):

- We make investments and manage the asset portfolio against agreed key performance indicators consistent with the strategic objectives of enhancing net cash flow, reducing leverage, managing costs and diversifying our asset base;
- We seek to avoid reputational risk by ensuring that our operational processes and practices reduce the potential for error to the greatest extent practicable;
- We seek to embed a risk culture within our organisation corresponding to the risk appetite 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; and
- We set clear tolerances for all material operational risks to minimise overall operational losses, with zero tolerance for criminal conduct.

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 the business. 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 (for further information, please see the Risk Committee Report on page 89).

The Board, supported by the Audit Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2017 to the date of this report, and is satisfied that it is 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 2016 financial restructuring (and consequent strategic focus on reducing the Company's debt 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 mitigations;
- An estimate of the potential impact and likelihood of occurrence after the mitigation actions, along with 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 materially lower than expected production performance for a prolonged period, particularly at the Kraken field (see 'Production' risk on page 41).

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Boe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

RISK

Health, safety & 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, asset integrity issues and potential environmental harm.

Potential impact – Medium (2016 Medium)
Likelihood – Low (2016 Low)

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

Related KPIs – A, B, C, D, E, F, G

APPETITE

The Group's principal aim is safe results with no harm to people and respect for the environment. Should operational results and safety ever come into conflict, employees have a responsibility to choose safety over operational results and are empowered to stop operations if required.

The Group's desire is to maintain upper quartile HSE performance measured against suitable industry metrics.

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. HSE performance is discussed at each Board meeting. During 2017, the Group continued to focus on control of Major Accident Hazards and 'Safe Behaviours' which has resulted in significant improvement in safety and environmental performance.

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 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.

EnQuest has now extended the application of its HSE policy, activities and programmes to operatorship of the Magnus oil field, Sullom Voe Terminal and associated pipelines; see page 36 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; potential for significant unexpected shutdowns; and unplanned expenditure (particularly where remediation may be dependent on suitable weather conditions offshore).

Lower than expected reservoir performance or insufficient addition of new resources may have a material impact on the Group's future growth.

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 (2016 High)
Likelihood – Low (2016 Low)

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

Whilst reliance on the Sullom Voe Terminal has decreased due to the Scolty/Crathes and Kraken projects coming onstream, production at Alma/Galia has been below expectations. Until the Kraken project is at full production, there remains a possibility that production at the field could be below expectations.

Related KPIs – B, C, D, E, G, H

APPETITE

Since production efficiency and meeting production targets 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 programmes 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 having assumed operatorship of the terminal and with the workforce having transferred with the asset. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide both risk mitigation and cost savings.

The Group also continues to consider new opportunities for expanding production.

Risks and uncertainties CONTINUED

RISK

Project execution and delivery

The Group's success will be partially dependent upon the successful execution and delivery of development projects.

Potential impact – High (2016 High)
Likelihood – Low (2016 Low)

The potential impact has been partially offset by the Alma/Galia, Scolty/Crathes and Kraken projects coming into production in 2015, 2016 and 2017 respectively.

Further, as the Group focuses on reducing its debt, executing new large-scale developments is not considered a strategic priority in the short term.

Related KPIs – B, D, E, F, G, H

APPETITE

The efficient delivery of new project developments has been a key feature of the Group's long-term strategy. Following the entry into production of the Alma/Galia, Scolty/Crathes and Kraken projects, the Company's exposure to development risks has now reduced.

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 the 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. EnQuest also supports its partners and suppliers through the provision of appropriate secondees if required.

The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production was achieved on 23 June 2017. Prior to sanction, EnQuest identified and optimised the development plan using EnQuest's pre-investment assurance processes. The Group also continues to explore opportunities to reduce capital costs and optimise drilling programmes with a view to achieving the most cost efficient development outcome at the field.

RISK

Subsurface risk and reserves 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 (2016 High)
Likelihood – Medium (2016 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 (please see pages 14 to 15).

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

Related KPIs – B, C, D, E, F, G, H

APPETITE

Reserves replacement is an element of the sustainability of the Group and its ability to grow. 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 and relevant stage gate processes. 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.

The Group continues to consider potential opportunities to acquire new production resources that meet its criteria.

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H: Net 2P reserves (MMboe)

RISK	APPETITE

Financial

Inability to fund financial commitments or maintain adequate cash flow and liquidity and/or reduce costs.

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 (2016 High)
Likelihood – Medium (2016 Medium)

There has been no material change in the potential impact or likelihood; however, adhering to the RCF amortisation schedule remains partially dependent on the successful increase in production at the Kraken development, aggregate production at other assets being materially in line with expectations and no significant reduction in oil prices. Further information is contained in the going concern and viability paragraphs on pages 34 and 35 of the Financial Review.

Related KPIs – B, C, F, G, H

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, enhancing profit margins, reducing costs 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 an $80 million crude oil prepayment transaction and executed a $37.25 million refinancing for its Tanjong Baram project in Malaysia; the Group also secured consents from its term loan and revolving credit facility lenders to waive certain financial covenants tests and amend the amortisation schedule under the facility.

These steps, together with other mitigating actions available to management, are expected to provide the Group with sufficient liquidity 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 enhance its financial position through maintaining a focus on controlling and reducing costs through supplier renegotiations, assessing counterparty credit risk, hedging and trading, cost-cutting and rationalisation. Where costs are incurred by external service providers, the Group actively challenges operating costs. The Group also maintains a framework of internal controls.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Bboe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

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 (2016 Low)
Likelihood – Medium (2016 Low)

The impact has remained static due to low oil prices impacting the buoyancy of the employment market. The likelihood has increased due to the erosion in value of long-term share-based incentive plans.

Related KPIs – A, B, C, D, E, F, G

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 an able and 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.

We recognise that our people are critical to our success and so are continually evolving our end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that we have the right person for the job and that we provide appropriate training, support and development opportunities with feedback to drive continuous improvement whilst delivering safe results. The culture of the Group is an area of increased focus given the rapid growth of the workforce as we absorb a significant number of personnel into the business with the acquisition of operating interests in the Magnus field and the Sullom Voe Oil Terminal. See page 55 for how the Board is addressing this.

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 Group recognises that there is a Gender Pay gap within the organisation but that there is no issue with equal pay for the same tasks. EnQuest aims to attract the best talent, regardless of gender.

The focus on executive and senior management retention, succession planning and development remains an important priority for the Board. 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 planning therefore remains a key priority.

RISK

Reputation

The reputational and commercial exposures to a major offshore incident or non-compliance with applicable law and regulation are significant.

Potential impact – High (2016 High)
Likelihood – Low (2016 Low)

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

Related KPIs – A, C, D, E, G, H

APPETITE

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

MITIGATION

All 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.

All EnQuest personnel and contractors are required to pass an annual anti-bribery, corruption and anti-facilitation of tax evasion course.

Key Performance Indicators ('KPIs'):

A: HSE&A (LTI)
B: Production (Boepd)
C: Unit opex ($/Bboe)
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H: Net 2P reserves (MMboe)

RISK

Oil price

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

Potential impact – High (2016 High)
Likelihood – Medium (2016 High)

There has been no material change in the potential impact; the likelihood has decreased due to rising/stabilising oil prices.

Related KPIs – B, D, E, F, G, H

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 institutionalising 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. As at 19 March 2018, the Group had hedged approximately 7.5 million bbls for 2018 at a price of approximately $62/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 the required 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

Fiscal risk and government take

Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy/business plan and potentially impact revenue and future developments.

Potential impact – High (2016 High)
Likelihood – Medium (2016 Medium)

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

Related KPIs – E, G

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 engages with government and other appropriate organisations in order to keep abreast of expected and potential changes; the Group also 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 an operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.

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 (2016 Medium)
Likelihood – Medium (2016 Medium)

There has been no material change in the potential impact or likelihood; however, due to the assumption of operatorship at Sullom Voe Terminal, the Group has now assumed exposure to a larger number of counterparties.

Related KPIs – C, D, E, F, G

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.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Bboe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

Risks and uncertainties CONTINUED

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 (2016 Medium)
Likelihood – Medium (2016 Medium)

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

Related KPIs – C, D, E, F, H

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 that 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 (principally only oil) is from mature fields. This amplifies exposure to key infrastructure (including aging pipelines and terminals), political/fiscal changes and oil price movements.

Potential impact – High (2016 Medium)
Likelihood – Medium (2016 Low)

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). In addition, although production from Kraken represents a new production hub for the Group, it does further extend geographic concentration of the Group's production in the UK North Sea.

Related KPIs – B, C, D, E

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 and Kraken which produce to shuttle tankers reduced the Group's prior concentration to the Brent Pipeline System ('BPS') and the Sullom Voe Terminal. Although, due to successful completion of the Group's acquisition of the Magnus field and Sullom Voe Terminal from BP, the Group will see a further concentration in Sullom Voe. 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.

Key Performance Indicators ('KPIs'): **A:** HSE&A (LTI) **B:** Production (Boepd) **C:** Unit opex ($/Bboe) **D:** EBITDA ($ million) **E:** Cash generated by operations ($ million) **F:** Cash capex ($ million) **G:** Net debt ($ million) **H:** Net 2P reserves (MMboe)

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&A, 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 (2016 Medium)
Likelihood – Medium (2016 Medium)

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

Related KPIs – A, D, E, F, G, H

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 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.

RISK

IT security and resilience

The Group is exposed to risks arising from interruption to, or failure of, IT infrastructure. The risks of disruption to normal operations range from loss in functionality of generic systems (such as email and internet access) to the compromising of more sophisticated systems that support the Group's operational activities. These risks could result from malicious interventions such as cyber-attacks.

Potential impact – Medium (2016 N/A)
Likelihood – Low (2016 N/A)

Related KPIs – A, B

APPETITE

The Group endeavours to provide a secure IT environment that is able to resist and withstand any attacks or unintentional disruption that may compromise sensitive data, impact operations or destabilise its financial systems; it has a very low appetite for this risk.

MITIGATION

The Group has established IT capabilities and endeavours to be in a position to defend its systems against disruption or attack.

The Risk Committee undertook an analysis of cyber security risks in 2017, recognising it is one of the Group's key focus areas. Work on assessing the cyber security environment and implementing improvements as necessary will be continuing during 2018.

Stefan Ricketts
Company Secretary

The Strategic Report was approved by the Board and signed on its behalf by the Company Secretary on 19 March 2018.

Key Performance Indicators ('KPIs'):
A: HSE&A (LTI)
B: Production (Boepd)
C: Unit opex ($/Boe)
D: EBITDA ($ million)
E: Cash generated by operations ($ million)
F: Cash capex ($ million)
G: Net debt ($ million)
H: Net 2P reserves (MMboe)

CORPORATE GOVERNANCE

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 ('EY'). He is a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at EY. In his time at EY, Jock 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 EY in 2009, since when he has developed a career as an independent public company director.

Other principal external appointments
Non-executive director of Barratt Developments plc and Dixons Carphone plc. He is chairman 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. In 1998 Amjad founded and was the chief executive of Petrofac Energy Developments International Limited. 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. Amjad was British Business Ambassador for Energy from 2013 to 2015.

Other principal external appointments
Chairman of the independent energy community for the World Economic Forum since 2016, and non-executive chairman of . 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 accounting and legal professional qualifications as well as significant capital markets knowledge, experience and understanding has been critical in raising finance during EnQuest's existence, particularly the successful restructuring undertaken in 2016.
Jonathan also has significant merger and acquisition transactional experience.

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 OMV activities in 14 countries and 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), and MND (Czech Republic).

Laurie Fitch
Non-Executive Director

Appointed
8 January 2018

Committees
Risk and Remuneration

Skills and experience
Laurie Fitch has a BA in Arabic and an MA from Georgetown University's School of Foreign Service, where she is chair of the University's Center for Contemporary Arab Studies. Laurie is currently a partner in the strategic advisory group at PJT Partners, based in London. She spent a significant part of her career as an equity analyst and portfolio manager at TIAA CREF and Artisan Partners, where she invested in the global industrials, utility and infrastructure sectors. Laurie spent four years in the global power and global industrials groups at Morgan Stanley, most recently as co-head of the global industrials group in Europe, prior to joining PJT Partners in 2016.

Other principal external appointments
Partner in the strategic advisory group of PJT Partners; non-executive director of EDP (Energias de Portugal), SA; and a member of the Audit and Finance and Operations subcommittees of the Tate Board of Trustees.

Philip Holland
Non-Executive Director

Appointed
1 August 2015

Committees
Risk (Chairman) and Remuneration

Skills and experience
Philip Holland holds a BSc in Civil Engineering from Leeds University and a MSc in Engineering and Construction Project Management from Cranfield School of Management. Philip has extensive experience in managing large scale oil and gas projects around the globe. In 1980, he joined Bechtel Corporation and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell as vice-president of projects, Shell Global Solutions International. In 2009, Philip became executive vice-president downstream projects in Shell's newly formed projects and technology business and in 2010 he was appointed as project director for Shell's Kashagan phase 2 project in Kazakhstan, 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.

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; member of the development board of St Peter's College, Oxford; member of the General Synod of the Church of England and the finance committee of the Archbishops' Council.

John Winterman
Non-Executive Director

Appointed
7 September 2017

Committees
Audit, Risk and Remuneration

Skills and experience
John Winterman holds a BSc in geology from Queen Mary College, London University and is a member of the American Association of Petroleum Geologists. John has extensive leadership experience in global exploration, business development and asset management and has a strong record of exploration success globally with over two billion barrels of oil equivalent discovered in the Philippines, Indonesia, Bangladesh, Malaysia, Russia, United States and Yemen. John joined Occidental in 1981 and after a 20+ year technical career as a geologist with the company, moved into executive roles; these included high-level leadership positions in exploration, new business development and in asset management. John left Occidental in 2013 and since then he has provided strategic advice to international oil and gas companies.

Other principal external appointments
Non-executive director of CC Energy.

Senior management

Faysal Hamza
Interim Head of North Sea and Managing Director – Corporate Development

Faysal has an MBA from Georgetown University in Washington and over 28 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).

Bob Davenport
Managing Director – North Sea

Bob has a degree in Mineral Engineering and an MBA. He began his early career in 1984 as a field engineer with Schlumberger, then gained broad international experience in petroleum engineering, operations and management with Texaco, Shell, BP and Apache Corporation. In previous roles he has worked in Southeast Asia, the Middle East, Egypt, UK North Sea and the 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. He joined EnQuest in 2015 as Managing Director – Malaysia. In his current role as Managing Director – North Sea, Bob is responsible for delivering sustainable business growth in the UKCS.

Martin Mentiply
Chief Petroleum Engineer

Martin holds a degree in Chemical Engineering from the University of Edinburgh and a Masters degree in Petroleum Engineering from Imperial College. He has over 20 years of broad international oil and gas operator experience. Through his career he has gained significant technical and commercial expertise in field development planning, project execution, reservoir management and investment assurance across the value chain from Upstream through to LNG. He joined EnQuest in 2016 from BG Group plc, where his most recent role was head of assurance, advising the board and chief executive on investment decisions. In previous roles he has worked in Indonesia, Egypt, Tunisia and the UK North Sea. As the Chief Petroleum Engineer for EnQuest, Martin has global accountability for all subsurface activities, including reserves management and resource maturation.

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.

Imran Malik
Vice President – Finance

Imran 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 plc, where he was part of the finance leadership team and 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, 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 – Strategy and Corporate Development

Salman graduated from the University of Toronto with a degree in Finance and Economics with high distinction. He is also a CFA charter holder 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, Salman is responsible for the Group's strategy, corporate finance activities, and transaction structuring and execution, including acquisitions and divestments.

Chairman's letter

"The Board has focused on ensuring the Group's governance and control processes are appropriate for the next phase of the Company's development."

Dear Fellow Shareholder

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's Corporate Governance Report in this, my first full year as Chairman of the Company.

Over the past 12 months, the Board of Directors has focused on:

- The progress of the Kraken development and its transition to a producing asset, with the resultant operational, financial and accounting impacts;
- The successful completion of the Magnus oil field ('Magnus') and Sullom Voe Oil Terminal ('SVT') acquisition, assurance of EnQuest's capability to deliver safe operations at these assets and an assessment of the accounting and control implications arising upon completion and from ongoing operatorship of these assets;
- Ongoing development and implementation of the Group's Risk Management Framework;
- Board and senior management succession planning, including the recruitment and induction of three new Non-Executive Directors; and
- The Company's strategic vision and direction.

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. EnQuest's Company values underpin a working environment where people are safe, creative and passionate, with a relentless focus on results. During 2017, the Risk Committee, established in 2016, was fully embedded into the governance structure of the Company. 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) and we have this year added a separate Report from the Risk Committee Chairman, which can be found on page 89. In addition, the Group's Code of Conduct was amended, including the provision of specific guidance on the anti-facilitation of tax evasion.

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 66-86 (Remuneration), pages 87-88 (Nomination) and page 89 (Risk).

EnQuest's governance framework also contains several non-Board Committees which provide advice and support to the Chief Executive on the development, implementation and monitoring of the Group's strategy, including an Executive Committee, Operations Committee and Investment Committee.

Board composition and succession planning

The Board regularly considers how it operates and whether there is an appropriate composition and mix around the Board table. 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. More information on the work of the Nomination Committee can be found on pages 87 to 88.

In line with our managed approach to Board composition, I was delighted to welcome three Non-Executive Directors to the Company. After rigorous search processes, led by an external advisor, (see page 87 for more information), Carl Hughes was appointed on 1 January 2017, John Winterman on 7 September 2017 and Laurie Fitch on 8 January 2018. Both Carl and John joined the Audit, Risk and Remuneration Committees and Laurie the Risk and Remuneration Committees. All bring their extensive and varied experience covering financial services, the energy industry and capital markets to the Company. Their biographies can be found on page 51.

I would like to thank Philip Nolan, who stepped down as a Non-Executive Director in July 2017 for his valuable contribution to the Company's development over the past five years. I would also like to thank Neil McCulloch, who stepped down as Chief Operating Officer and Executive Director in December 2017, for his unstinting contribution to EnQuest during a challenging period for both the Company and industry.

EnQuest governance and management map

EnQuest PLC Board of Directors
Jock Lennox (Chairman), Helmut Langanger (SID), Laurie Fitch, Carl Hughes, Philip Holland, John Winterman, Amjad Bseisu (CE) and Jonathan Swinney (CFO)

Remuneration Committee
Helmut Langanger (Chair), Laurie Fitch, Philip Holland, Carl Hughes and John Winterman

Nomination Committee
Jock Lennox (Chair), Helmut Langanger and Amjad Bseisu

Audit Committee
Carl Hughes (Chair), Helmut Langanger and John Winterman

Risk Committee
Philip Holland (Chair), Laurie Fitch, Carl Hughes and John Winterman

Chief Executive

Executive Committee

Operations Committee

Investment Committee

HSE&A

Board evaluation
The Board held an internal evaluation in 2017 and identified a number of areas for consideration, which are summarised on page 58. In addition, the Senior Independent Director conducted a review of my performance and this is also found on page 58. The last externally facilitated Board evaluation took place in 2015 and it is the intention of the Board to hold another in 2018.

Corporate responsibility
The Company's corporate responsibility is focused on five main areas. These are 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 Health, Safety, Environmental and Assurance ('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
The culture of the Company was a key consideration for the Board in 2017 and, as detailed in the Corporate responsibility review on page 38, the Company conducted an online staff culture survey. The results of the survey have been discussed at Board level and the Board continues to monitor the resulting actions and activities with interest. This is especially important as the acquisition of Magnus and SVT in December 2017 increased our workforce. We believe that engaged and committed staff are integral to the delivery of the Company's business plan.

Strategy and risk management
The Board continued to provide strategic guidance to executive management throughout the year, which culminated in EnQuest's annual Board strategy day in October 2017. During 2017, the Board reviewed and refined the presentation of the Company's purpose, vision, strategy and business model (see page 04. In addition, a number of tenets were developed to guide the Company in its pursuit of its strategy and in accordance with the Group's appetite for risk within its Risk Management Framework.

The Board, in particular through the work of the Risk Committee, has also been active in supporting the evolution of the Group's Risk Management Framework and certain specific controls (see pages 40 and 89). In 2018, we will continue to build on our governance processes and strategic priorities as outlined on the following pages.

Jock Lennox
Chairman
19 March 2018

Corporate Governance Statement

Statement of compliance

The Financial Reporting Council ('FRC') published the UK Corporate Governance Code (the 'Code') in April 2016, which was effective for accounting periods beginning on or after 17 June 2016. The Company 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. Detailed below is EnQuest's application of, and compliance with, the Code. EnQuest awaits the outcome of the FRC's consultation on a revised Corporate Governance Code, which is due to be announced in late 2018.

Key corporate governance activities in 2017	Details
Appointment of Non-Executive Directors	Carl Hughes was appointed on 1 January 2017, John Winterman was appointed on 7 September 2017 and Laurie Fitch was appointed on 8 January 2018. See page 87 for details.
Magnus and SVT acquisition and integration	See Audit Committee Report, page 63, for details.
Shareholder consultation	See Directors' Remuneration Report, pages 66 to 67, for details.
Allotment of Ordinary shares to the Employee Benefit Trustee	26,685,433 shares were allotted on 18 October 2017. See page 90 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 2017, four of which were held at the Company's registered office in London, one in the Aberdeen office and one was held offsite in conjunction with the Company's annual strategy day in October. In addition, the Board held a number of further Board meetings throughout the year. In total there were an additional eight Board meetings, primarily focused on the Kraken development and the acquisition of the Magnus oil field ('Magnus') and Sullom Voe Oil Terminal ('SVT'), which were all 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. In 2017 the Chairman visited several of the Company's leading shareholders and proposes to do so again in 2018. 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 and 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 to 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 runs the annual review of the performance of the Chairman and has recently led a shareholder consultation with the Company's major shareholders regarding the remuneration of the Chief Financial Officer and certain production and reserves growth targets relevant to the Company's PSP share scheme. See pages 66 to 67 within the Directors' Remuneration Report for more information on this consultation, which contributed to the proposal for amending the remuneration policy to be put to a vote at the forthcoming Annual General Meeting ('AGM') of the Company. 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, most recently Carl Hughes, John Winterman and Laurie Fitch, and assists with the ongoing training and development of the Board.

Effectiveness

Board composition and changes

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 eight Directors, consisting of two Executive Directors and six Non-Executive Directors (including the Chairman). As explained in the Chairman's Statement, Philip Nolan and Neil McCulloch stepped down from the Board in July and December 2017 respectively. Carl Hughes was appointed as a Non-Executive Director on 1 January 2017, John Winterman on 7 September 2017 and Laurie Fitch on 8 January 2018. More detail on Board biographies is set out on pages 50 to 51. The work of the Nomination Committee, which includes the Board's activities relating to diversity, is found on pages 87 to 88.

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 2017:

	Board meetings	Audit Committee	Remuneration Committee	Risk Committee	Nomination Committee
Meetings considered by the Board	6	3	3	4	6
Executive Directors					
Amjad Bseisu	6	n/a	n/a	n/a	6
Neil McCulloch[1]	3/3	n/a	n/a	4	n/a
Jonathan Swinney	6	n/a	n/a	n/a	n/a
Non-Executive Directors					
Jock Lennox	6	n/a	n/a	n/a	6
Helmut Langanger	6	3	3	n/a	6
Philip Holland	6	n/a	3	4	n/a
Carl Hughes[2]	6	3	3	4	n/a
Philip Nolan[3]	3/3	1/1	2/2	2/2	3/3
John Winterman[4]	2/2	1/1	1/1	2/2	n/a

Notes:
n/a not applicable where a Director is not a member of the Committee.
1 Neil McCulloch was appointed as a Director on 25 May 2017 and stepped down from the Board of Directors on 11 December 2017.
2 Carl Hughes was appointed as a Director on 1 January 2017.
3 Philip Nolan stepped down as a Director on 4 July 2017.
4 John Winterman was appointed as a Director on 7 September 2017.

Board activities during the year

How the Board operates

During 2017, 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 completion of Kraken and the acquisition of Magnus and SVT. Scheduled Board meetings are preceded by a day of Committee meetings and, when required, technical reviews which allow for an in-depth review 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 and updates on major projects, irrespective of a meeting taking place, which allows them to monitor performance regularly.

Board agenda and key activities throughout 2017

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 2017
• HSE&A • Key project status and progress • Responses to oil price movements • 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 • Risk, going concern and long-term viability review • Annual offsite strategy day held in October • Evolution of Risk Management Framework • 2017 budget review and 2018 budget review • Periodic updates on corporate regulatory changes and reporting requirements • Hedging strategy and policy • Annual anti-corruption review • Anti-facilitation of tax evasion • Implementation of Risk Committee • Matters pertaining to the Kraken and Magnus projects • Staff culture • Review of the Group's cyber-security related process and controls

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 57. 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, under Corporate Governance.

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. Changes are approved by the Board, most recently in January 2018 when the authorities matrix was updated to include the acquisition of Magnus and SVT.

Board performance evaluation
Each year the Board is required to carry out an evaluation of its own effectiveness as required by the Code. The review in 2017 was carried out internally. The Chairman met with each Director individually and Directors were also asked to complete a questionnaire.

Key themes which arose from the evaluation included:
- 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 2018 Board meeting and it was concluded that the Board and Committees were well constituted and had demonstrated good performance over the year. It was considered that the collaborative Board environment encouraged open debate and challenge when appropriate.

A number of topics were debated which have now been worked into the Board agenda for 2018. The most significant of these are to:
- Further evolve the Board's approach to strategy;
- Ensure Board training and development is addressed;
- Continue to plan for an orderly Board rotation, especially in light of the proposed Corporate Governance Code changes; and
- Progress activities relating to the development of the senior management team.

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 SID, also carried out a performance evaluation of the Chairman and concluded that the Chairman had performed well over the year. His allocation of time to the Company and encouragement of all viewpoints in Board meetings was appreciated by his fellow Non-Executive Directors.

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 authorities matrix. 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 2017 included training on corporate governance reform, preventing the facilitation of tax evasion and new IFRS accounting standards. 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. Individual Directors have also hosted breakfast meetings with staff to exchange views and information. 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. In 2017, staff were also advised of their obligations with regard to anti-facilitation of tax evasion, alongside which the Code of Conduct was updated and distributed. In January 2018, a new anti-facilitation of tax evasion module was added to the 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 to 47 of the Strategic Report for further information. In addition, the work of the Risk Committee is reported on page 89.

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 is set out in the Annual Report on pages 66 to 86.

Relations with shareholders

Engagement with shareholders

EnQuest maintained an active and constructive dialogue with its shareholders throughout the year through a planned programme of investor relations activities. In 2017, the Chairman and the Company's SID again offered to engage with institutional investors on corporate governance, remuneration or indeed any other matters and a number of such meetings were held during the year. The Board was updated on the content 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 also presents a paper at each Board meeting. The Chairman and the SID also engaged with a number of major shareholders in a consultation exercise summarised on pages 66 to 67.

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 which can be found under Investors at www.enquest.com. EnQuest's registrars, Link Market Services, previously branded as Capita Asset Services, also have a team available 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 also available on the Company's website and shareholders can register on the website to receive email alerts.

Across 2017, numerous investor and broker sales team and analyst meetings were held, including presentations at investor conferences and results. Results meetings are followed 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. Meetings are also held at EnQuest's offices in London and Aberdeen, with site visits undertaken as appropriate. These 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 closed periods.

The Company notes that the European Directive MiFID II (Markets in Financial Instruments Directive II) took effect in the United Kingdom on 3 January 2018. In particular the Company notes: the requirement for the costs for the provision of analysts' research to be separated from other broker execution services; and financial services industry speculation on how this may impact on communication between companies and investors. EnQuest is monitoring related developments with the objective of ensuring that its existing high standards of engagement with investors are maintained.

2017 Annual Report

The Directors are responsible for preparing the Annual Report and Accounts and consider that, taken as a whole, the Annual Report and Accounts 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 Fellow Shareholder

2017 has continued to be an active period for the Audit Committee. With the challenging external environment and the Group's acquisition of interests in, and operatorship of, the Magnus oil field ('Magnus') and Sullom Voe Oil Terminal ('SVT'), the Committee focused on the robustness of EnQuest's control environment, the Group's financial performance and cyber security. The Committee also reviewed the impact of new accounting standards, the quality of strategic reporting, further development of financial statement disclosures and the potential impacts of Brexit on the organisation in line with the Financial Reporting Council's ('FRC') guidance. With respect to the UK referendum result leading to Brexit, we do not expect it to have a material impact on the Group's performance, other than the effects of currency fluctuations impacting our UK Sterling cost base whilst our Dollar-based revenues remain unaffected.

As planned when we last reported to you, our work in 2017 has focused on the areas listed below:

- Continuing to monitor closely the Group's financial position, liquidity and covenant compliance given the ongoing uncertainty in the oil price;
- Overseeing the execution of our risk-based internal audit plan;
- The accounting implications of Kraken moving from being a development to a producing asset; and
- The continuous development of the Group's internal control and Risk Management Framework.

This report explains the way in which the Committee addressed the financial and audit risks which the macro environment, the industry and our operations presented for the Company during 2017. We have taken such items into account in the review of the going concern and the viability assessment.

Through internal audit, we reviewed the financial control environment of the Group to ensure that appropriate controls are in place and operating effectively. Further, we ensured that key judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, are carefully assessed. The Committee believes the adoption of the new accounting standards IFRS 9–Financial Instruments and IFRS 15–Revenue from Contracts with Customers, effective from 1 January 2018, will not have a material impact on the Group's financial statements during 2018. The Committee is pleased to report that initial work is underway in preparation for the potential implementation of IFRS 16–Leases, which is effective from 1 January 2019. Details of the judgements and estimates made in the 2017 financial statements, 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.

As explained further on the Company's website (www.enquest.com, under 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, including fees for audit and non-audit services;
- Identify any matters in respect of which it considers that action or improvement is needed and making recommendations to the Board as to the steps to be taken; and
- Monitor and review the process of the assessment of the Group's proven and probable reserves by a recognised Competent Person.

The report also looks ahead to those matters which I expect that the Committee will need to consider in the forthcoming year. As in previous years, we will remain focused on monitoring closely the enlarged Group's financial position, liquidity and covenant compliance, as well as overseeing the execution of our risk-based internal audit plan. Time will also be committed to ensuring the consolidation of the Group's acquired interests in Magnus and SVT into the Group's internal control and risk management systems and our approach to internal audit.

Carl Hughes
Chairman of the Audit Committee
19 March 2018

Committee composition

As required by the UK Corporate Governance Code (the 'Code'), the Committee exclusively comprises Non-Executive Directors, biographies of whom are set out on pages 50 and 51. The Board is satisfied that the 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 scheduled meetings held during 2017 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Carl Hughes (Committee Chairman)	1 January 2017	3/3
Helmut Langanger	16 March 2010	3/3
Philip Nolan[1]	1 August 2012	1/1
John Winterman[2]	7 September 2017	1/1

Notes:
1 Philip Nolan stepped down as a member of the Committee on 4 July 2017 when he stepped down as a Director of the Company.
2 John Winterman was appointed as a Non-Executive Director on 7 September 2017, becoming a member of the Audit, Risk and Remuneration Committees.

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 2017, attended the meetings as appropriate. The Chairman of the Committee regularly meets with the external audit partner (with such meetings including the independent review of the going concern and viability assessments) and the internal audit partner to discuss matters relevant to the Company.

An internal Board effectiveness evaluation was conducted during 2017, and further details on this are outlined in the Corporate Governance Report (refer to page 58).

Meetings during 2017

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	August 2017	December 2017	March 2018
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 2018		√	
Review and approve the external audit plan, including key risks and planned approach		√	
Approve external audit fees subject to the audit plan		√	
Review the level of non-audit service fees for EY		√	√
Evaluate quality, independence and objectivity of EY	√		
Evaluate the viability assessment		√	√
Evaluate preparation for the integration of Magnus and SVT	√	√	
Appropriateness of going concern assumption	√	√	√
Corporate governance update	√	√	√
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity			√

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, with appropriate weight being 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 instructions 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 and Accounts 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 the creation of the Annual Report and Accounts; and
- A meeting of the Audit Committee was held in March 2018 to review and approve the draft 2017 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 each provide reports to the Audit Committee in respect of these areas at each Committee meeting. The main areas considered during 2017 are set out below:

Significant financial statement reporting issue	Consideration
Going concern and viability The Group's assessments of the going concern assumption and viability are 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 2018 business plan production forecast; • The oil price assumption, based on a forward curve as at 31 January 2018, of \$67/bbl (2018), \$63/bbl (2019), \$60/bbl (2020) and \$58/bbl (Q1 2021); • Opex and capex forecasts based on the approved 2018 business 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, along with 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 Committee, including the appropriateness of the assumptions made. The wording in the Annual Report concerning the viability statement and going concern assumption (see pages 35 and 36) 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 2017 of 210 MMboe. The estimation of these reserves is essential to: • The value of the Company; • The value of the acquisition of interests in the Magnus oil field; • 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 & Associates, our reserves auditor. We considered the scope and adequacy 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 2017, a total of \$3.9 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 future cash flows from the underlying assets. Owing primarily to changes in assumptions and lower production performance at Alma/Galia compared to the same time last year, impairment testing has been performed resulting in a pre-tax non-cash net impairment charge of \$0.2 billion of tangible oil and gas assets. Included within this number are further impairments of \$0.3 billion and impairment reversals of \$0.1 billion. These impairment tests are underpinned by assumptions regarding: • 2P reserves; • Oil price assumptions (forward curve until 2021 and \$70/bbl 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, at 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
Complexity of acquisition accounting The acquisition of 25% of the Magnus oil field from BP along with BP's interest in the related infrastructure assets completed on 1 December 2017. This is a complex agreement funded by way of a vendor loan from BP and is linked to a further agreement in relation to the funding of the decommissioning of the Thistle field. Given the complexity of the deal there is a risk that the fair value calculation could be incomplete.	At the December meeting, the preliminary acquisition financial statements were presented to the Committee. In the March meeting, the key assumptions and results of the interim completion statements were presented to the Committee. Consideration was also given to EY's view of the work performed by management.
Adequacy of the decommissioning provision The Group's decommissioning provision of $0.6 billion at 31 December 2017 is based upon 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, excluding Kraken. In 2017, the Group commissioned Wood Group PSN to estimate the decommissioning cost estimates for the Kraken facility and associated infrastructure. 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/Seligi is reviewed triennially, with the next review scheduled for 2018. 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.	The Committee 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.
Taxation At 31 December 2017, the Group carried deferred tax balances comprising $398.3 million of tax assets (primarily related to tax losses) and $62.7 million 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. Ring fence losses totalling $3,121 million ($1,248 million tax-effected) have been recognised. Mainstream (outside ring fence) tax losses totalling $290.2 million ($49.3 million tax-effected) have not been recognised due to uncertainty of recovery. Given the complexity of tax legislation, risk exists in respect of some of the Group's tax positions.	The Committee received a report from the Group's Head of Tax, outlining all uncertain tax positions, and evaluated the technical arguments supporting the position taken by management. The Committee also took into account the views of EY as to the adequacy of our tax balances. An evaluation of the transparency of the Group's tax exposures was undertaken, 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 the Company's internal auditors. The Committee remains satisfied that outsourcing this function, rather than building an in-house team, remains the most appropriate approach 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 determine the internal audit plan each year. When setting the plan we consider recommendations from management, the internal auditors, and take into account the particular risks impacting the Company, which are reviewed by the Board and Risk Committee. During 2017, internal audit undertook various projects, including reviews of:

- The financial controls and processes for the transition from project to operation for Kraken;
- The Group's cyber security environment;
- The Group's compliance with the renegotiated revolving credit facility; and
- Ongoing rotational reviews of the financial control framework of:
  - Controls in the North Sea and head office finance functions; and
  - Joint venture accounting.

In all cases the audit conclusions were that the systems and processes were satisfactory or, where potential control enhancements were identified as being required, the Committee ensured that appropriate action was being taken by management to implement the agreed improvements. Cyber security is one of the Group's key focus areas and work on assessing the cyber security environment and implementing improvements as necessary will be continuing during 2018.

After considering the priorities in 2018, we have directed internal audit to focus on, among other areas, readiness for increased offshoring of some finance related operations to Dubai, compliance with procurement procedures, cyber security, and an ongoing rotational review of the financial control framework including the impact of the recently acquired Magnus and SVT assets, of which EnQuest is now the operator.

External audit

One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of EY, who have 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 2017, and it was concluded that the Committee continues to be satisfied with EY's performance and the firm's objectivity and independence. The Chairman of the Committee met with the extended audit team to discuss key audit issues during the year.

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 decrease in the size of non-audit fees (from $370,000 in 2016 to $5,000 in 2017). In 2016, the fees reflected the work required of EY for the Group's equity raise prospectus, including their working capital review and reporting accountant's services. These services provided in 2016 are typically provided by a company's auditor to achieve shareholder value. The ratio of non-audit fees to audit fees over the last three years was 16%, which remains below the 70% cap outlined in the Company's policy in respect of non-audit services provided by the external auditor.

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 2018 audit. While no tender is required until 2019, 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 auditor's independence and objectivity can potentially be affected by the level of non-audit services to EnQuest. However, the Committee acknowledges that certain work of a non-audit nature is best undertaken by the external auditor. To ensure objectivity and independence, and to reflect best practice in this area, the Company's policy on non-audit services reflects the EU Regulations. 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 auditor provides the Committee with information about their policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and staff. EY 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, 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. In line with the process outlined on page 59 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

> The Committee is clear that variable remuneration should be based on strong, long-term business performance that delivers value to shareholders.

Dear Fellow Shareholder

On behalf of the Board and my fellow members of the Remuneration Committee, I am pleased to present EnQuest's Directors' Remuneration Report ('DRR') for the financial year ended 31 December 2017.

Overview

At the Annual General Meeting ('AGM') in May 2017, over 97% of shareholders voted to approve the new remuneration policy for EnQuest. Policy revisions followed an extensive review and shareholder consultation by the Committee on remuneration framework changes to reflect both developments in EnQuest as a maturing business and the ongoing need to retain and attract high calibre people in a challenging commercial environment.

In 2017, we implemented the first phase of the two-year rebalancing of the overall executive remuneration package from short-term bonuses to longer-term Performance Share Plan ('PSP') awards. The main updates were as follows:

- Annual bonus award percentage was reduced from 100% to 85% of salary (at target) and from 225% to 175% of salary (maximum);
- Implementation of an additional debt metric into the annual bonus performance conditions;
- PSP maximum awards increased from 200% to 250% of salary at normal award level and from 300% to 350% of salary at exceptional award level;
- PSP awards to include a debt metric if and when required;
- Policy of bonus deferral into shares revised so that the entire annual bonus award above 100% of salary is deferred into EnQuest shares for two years delivering a cap on the actual bonus paid out in cash;
- Executive Directors required to build up and hold at least 200% of salary in shares; and
- Malus or clawback provisions initiated on 2017 cash and share elements of the annual bonus plan and on PSP awards.

In 2018, the second phase will see us implement a further reduction in the annual bonus percentage award to 75% of salary (at target) and 125% of salary (maximum).

As a Committee, we believe that the policy, strongly endorsed by shareholders, is aligned with the Company's strategy and market best practice. We are also clear that variable remuneration should be based on strong, long-term business performance that delivers value to shareholders. We believe we have set threshold, target and stretch levels of performance accordingly.

2017 was a critical year for EnQuest, focused on positioning the Group for profitable growth and transitioning from a period of heavy capital investment to one in which the Group can begin to reduce its debt. Production performance was lower than originally anticipated and the Group was required to undertake prudent measures to manage the Group's liquidity and debt positions, which it did successfully. Delivering first oil from Kraken, along with its improving performance through the second half of 2017 and into 2018, along with the completion of the acquisition of assets from BP, underpin the Group's confidence in material production growth in 2018. The resulting increase in the Group's operating cash flow combined with lower capital expenditure will enable the Company to start to reduce its debt.

As part of our routine engagement on remuneration, we consulted with institutional shareholders on certain matters, including:

- Chief Financial Officer ('CFO') remuneration with regard to bringing Jonathan Swinney's salary closer to the peer group median;
- The Committee's belief that there is a need to align how the Company's production and reserves growth targets are described in the DRR, which has been on a 'per share' basis, with their actual assessment, disclosure and reporting over recent years, which has been on an absolute numbers basis; and
- Introducing a two-year post-vesting holding period for any PSP award made to Executive Directors from 2019 onwards in advance of the planned revision to the UK Corporate Governance Code.

While the proposed CFO remuneration increase is within the existing remuneration policy, shareholders are being asked to vote on a resolution to alter the existing Directors' remuneration policy at the 2018 AGM to approve the implementation of the two-year post-vesting holding period for PSP awards and the removal of the 'per share' description of the Group's production and reserve growth targets. As always, we strive to maintain an open and transparent shareholder dialogue, and appreciate your support and input.

The Directors' remuneration policy set out on the following pages has been updated to reflect the previously approved reduction in the target and maximum annual bonus awards to be implemented for 2018 and the proposed policy changes outlined above.

The DRR this year has three sections:

1. My annual statement as Chairman of the EnQuest Remuneration Committee.
2. The key elements of the remuneration policy, which will be subject to a binding shareholder vote at the 2018 AGM.
3. The Annual Report on Remuneration of the Executive Directors and Non-Executive Directors for 2017. This will be subject to an advisory shareholder vote at the 2018 AGM.

Shareholder consultation

We have continued our programme of open and transparent shareholder dialogue in 2017. Adjusting our Executive Director salaries towards the median of a relevant peer group is part of our policy and in keeping with standard benchmarking practice within EnQuest. This year, following a further review of Executive Director remuneration, we consulted with shareholders about the need to move Jonathan Swinney's salary as CFO closer to market median levels given his performance in delivering the 2016 financial restructuring, the increased focus on financial discipline and the prudent measures undertaken to manage the Group's liquidity and debt position.

Following this consultation and a supportive response from shareholders, a 9.9% increase in base salary for Jonathan Swinney is being recommended by the Committee, taking his annualised salary from £294,000 to £323,000. This increase is partially offset by the agreed reduction in 2018 of his target annual bonus level from 85% to 75% of salary and reduction in his maximum potential annual bonus from 175% to 125%. This moves the EnQuest CFO's salary and total remuneration closer to, although still below, the median for CFOs of our peers, adjusted for size.

The Committee decided to delay implementation of any increase until March 2018 to allow time for the Committee to take into account the Company's more recent operational and financial performance. As a result of the recent positive Company performance, the Committee implemented the 9.9% salary increase for Jonathan Swinney from 1 March 2018.

The Committee also highlighted to our shareholders that, for a number of years, we had labelled our PSP performance metrics for production and reserves growth in the DRR as being on a 'per share' basis whereas disclosure and performance measurement has been made on an absolute numbers basis (i.e. in Boepd and MMboe). This discrepancy between the 'per share' terminology and actual target setting has not previously been identified. However, in light of the 2016 financial restructuring and the resulting increase in the number of shares in issue, the funds from which were not used to acquire new reserves or production, the Committee is seeking shareholders' approval for an amendment to the revised remuneration policy that will clarify that targets for awards vesting from 2019 onwards will be on an absolute basis. The Committee has taken into account that an adjustment to these targets to reflect the increase in the number of shares resulting from EnQuest's financial restructuring would impact not only Executive Directors but also the wider employee population. The Committee has also taken into account management's longstanding and significant alignment with shareholders through exposure to equity. The Committee's intent is to maintain absolute numbers for production and reserves growth targets as they are actually reported now for outstanding 2016 and 2017 PSP cycles. However, should the Company engage in any future transaction where a change in equity capital is directly linked to changes in production and/or reserves, the Committee will make appropriate adjustments to such production and reserves growth targets. Any such adjustments would be designed to neutralise fully the incentive outcome to the impact of the change in equity capital.

In advance of the revisions to the Corporate Governance Code expected later in 2018, the revised remuneration policy will also introduce a two-year holding period for any PSP award made to Executive Directors from 2019 onwards.

The resolution putting forward two amendments to the remuneration policy is being presented to shareholders for a binding vote at the Company's AGM on 24 May 2018 and, if approved, will take effect from this date. It is anticipated that this revised policy will remain in force for the following three-year period, with a shareholder vote next being required in 2021.

Performance and remuneration outcomes for 2017

2017 was another year of strong safety performance and witnessed the achievement of a number of strategic milestones. The Kraken development was brought onstream in the second quarter as planned and achieved gross production rates of 40,000 Bopd in November. EnQuest also completed its acquisition of additional interests in, and operatorship of, Magnus and SVT and delivered on its operating cost and capital expenditure targets. However, production performance was impacted by a slower than planned increase in production from Kraken and lower than planned production from the Scolty/Crathes and Alma/Galia assets in the Central North Sea, which in turn impacted cash flow, liquidity and net debt.

2017 annual bonus – payable in 2018

The Executive Directors' annual bonus awards are based on a combination of financial and operational results and the achievement of key accountability objectives. The bonus attainment for Amjad Bseisu (Chief Executive) was based solely on achievement against the Company Performance Contract. In the case of Jonathan Swinney and Neil McCulloch (Chief Operating Officer), 50% of their bonus award was based on Company performance and 50% on achievement against performance measures set out in their individual performance contracts. The 2017 target and maximum bonus potential for Executive Directors was reduced to 85% and 175% of salary, respectively, as part of the approved phased remuneration policy changes. A 2017 bonus award of 99.4% of base salary (56.8% of maximum) has been made for Amjad Bseisu and 131.9% of base salary (75.4% of maximum) for Jonathan Swinney. The bonus amount shown for Neil McCulloch, equivalent to 46.2% of base salary (26.4% of maximum), is the pro-rated bonus disclosure to reflect the period he was an Executive Director (25 May 2017 to 10 December 2017 inclusive). The Committee believes that these levels of award are appropriate in light of performance during the year, including but not limited to the operational delivery at Kraken, the completion of the Magnus and SVT acquisition, which involved the safe and effective integration of more than 300 employees transferred from BP to EnQuest, along with the continued management of the Company's cost targets and liquidity position. Full details of how these awards were determined are included on pages 76 to 79 of this report. For Jonathan Swinney, the bonus amount in excess of 100% of salary will be deferred into EnQuest shares with a holding period of two years in line with the policy

Performance Share Plan ('PSP')

The award vesting on 27 March 2018 was the 2015 PSP award, which had a three-year performance period ending 31 December 2017 and vested at 10.92% of the original award. Our production and reserves growth targets were missed but our Total Shareholder Return ('TSR') position against the comparator group was above the median and, at 30% weighting, vested at 10.92%. Full details of actual performance against the three performance conditions of TSR, production growth and reserves growth targets are included in the report.

In 2017, the PSP award levels were increased to 250% of salary at normal level and 350% of salary at exceptional level as part of the rebalancing provisions of the executive remuneration package. A PSP award of 250% of salary for both the Chief Executive (CE) and CFO was made on 12 September 2017 following the 2017 AGM shareholder vote. The performance conditions will be measured over the three-year performance period until 31 December 2019, but will only vest in September 2020. The target descriptor of 'per share' has been removed from the PSP section in the policy and all relevant tables in the DRR to reflect the absolute numbers of production and reserves growth measures disclosed. In the event that the vote to approve the revised remuneration policy is not passed at the 2018 AGM, the descriptor 'per share' will be reapplied in subsequent DRRs.

Executive Director shareholding
Executive Directors are now expected to build up and hold a shareholding of 200% of salary. Both Amjad Bseisu and Jonathan Swinney comfortably meet this requirement.

Executive Director changes
Neil McCulloch joined the Board as Chief Operating Officer on 25 May 2017 at the 2017 AGM with a salary of £280,000. This was unchanged from his salary rate implemented from 1 January 2017. Neil stepped down from the Board on 11 December 2017. Details of his termination payments are set out in the Payments for Loss of Office section in the Report. All such payments made to Neil are in line with the approved policy.

Executive Director remuneration in 2018
2018 base salaries
As outlined in our report last year, we plan to adjust salaries progressively towards the median of peer companies in our market over the period of this new policy and subject to continued strong performance. This is designed to ensure we continue to retain and attract top people who can deliver superior results for our stakeholders.
For the year ahead, the Committee has awarded a salary increase of 2.0% to Amjad Bseisu, effective from 1 January 2018.
Following the shareholder consultation outlined above, Jonathan Swinney's salary has increased by 9.9% with effect from 1 March 2018.

2018 PSP awards
The Committee has decided to grant 250% of salary as a PSP award in April 2018 to Amjad Bseisu and Jonathan Swinney. These 2018 awards will be subject to the same scope of performance metrics as for the 2017 award, including net debt.

In 2017, we again saw the clear benefits of transparency and a positive and close working relationship with major shareholders. We wish this to continue as we welcome your input, 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. I hope you will all support the resolution to vote for this Directors' Remuneration Report at the forthcoming AGM.

Helmut Langanger
Chairman of the Remuneration Committee
19 March 2018

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 Corporate Governance Code (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 section sets out the principles behind our remuneration policy and the policy's key elements for both the Executive and Non-Executive Directors that were approved by shareholders at our AGM on 25 May 2017, along with the two policy changes as set out in the resolution being put to a shareholder vote at the 2018 AGM.

Remuneration principles
In determining the remuneration policy approved at the AGM held in May 2017, we reviewed our overall remuneration principles to ensure that they continued to be aligned with our strategy. EnQuest's strategic objective is to be the operator of choice for maturing and underdeveloped hydrocarbon assets, using its differential capabilities to enhance hydrocarbon recovery and extend the useful lives of these assets in a profitable and responsible manner.

We also want to ensure that we operate within the appropriate culture and, therefore, that 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:

- Aligned with shareholders;
- Fair, reflective of best practice, and market competitive;
- Comprising fixed pay set at or below the median and variable pay capable of delivering remuneration at upper quartile; and
- 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 24 May 2018, subject to approval at the 2018 AGM. This is the same as the policy approved in 2017, with revisions identified in the footnotes:

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.
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 into 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 – 75%. • Maximum award – 125%.	• 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%.

Component	Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Performance Share Plan ('PSP')	• Encourages alignment with shareholders on the longer-term strategy of the Company. • Enhances delivery of shareholder returns by encouraging higher levels of Company performance. • Encourages executives to build a shareholding.	• 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. • Awards vesting from 2022 onwards will then be subject to an additional two-year holding period which, unless the Committee determines otherwise, will apply up to the fifth anniversary of the date of grant.[1] • 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[2], production growth[2] 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.

Notes:
1 Policy change as set out in the resolution being put to a shareholder vote at the 2018 AGM.
2 Reserves and production growth targets are no longer described as being on a 'per share' basis.

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.

Note:

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 ('HSE&A');
- 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 Company Performance Contract of EnQuest. Jonathan Swinney's bonus objectives may also include up to 50% based on additional objectives that cover his 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 into 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

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 2018 these will comprise:

- TSR against a comparator group of oil and gas companies;
- Production growth on a Compound Annual Growth ('CAG') basis;
- Reserves growth on a relative growth basis; and
- Net debt on a relative reduction basis if considered appropriate by the Remuneration Committee.

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 remuneration package for a new Executive Director would be set in accordance 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 Nolan[2]	1 August 2012	3 months	3 years
Philip Holland	1 August 2015	3 months	3 years
John Winterman[3]	7 September 2017	3 months	3 years
Laurie Fitch[4]	8 January 2018	3 months	3 years

Notes:
1 Jock Lennox also has a more recent letter of appointment following him becoming Chairman on 8 September 2016.
2 Philip Nolan stepped down from the Remuneration Committee on his retirement from the Board on 4 July 2017.
3 John Winterman became a Non-Executive Director on 7 September 2017, becoming a member of the Audit, Risk and Remuneration Committees.
4 Laurie Fitch was appointed to the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees.

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 respective companies' 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 up to a maximum period of 12 months. 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 Deferred Bonus Share Plan ('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.

An 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, DBSP, PSP, RSP 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.

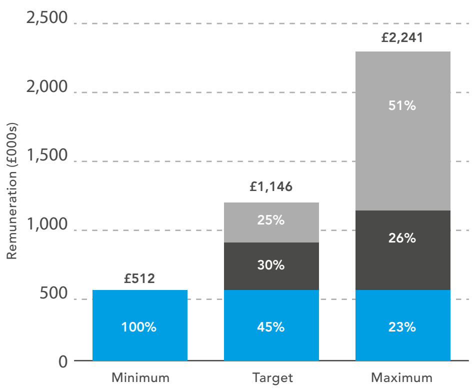
If tax liabilities arise from an error or omission by the Company that is outside of the control of the Executive Directors, the Committee will have the ability to reimburse any such tax liabilities.

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 DRRs 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 Report on Remuneration as they arise.

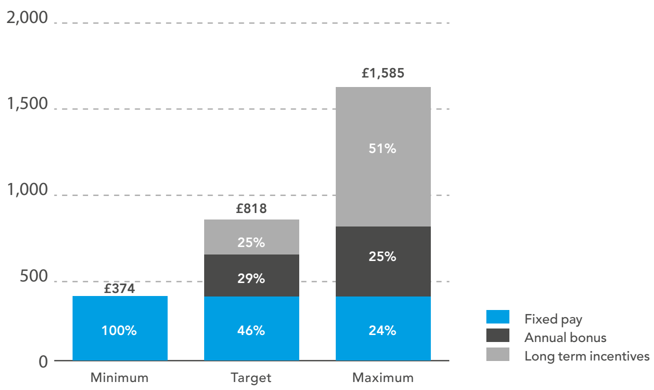
Remuneration outcomes in different performance scenarios
The charts below set out an illustration of the remuneration arrangements for 2018 in line with the remuneration policy described in the policy section. These charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

Three 2018 scenarios have been illustrated for each Executive Director:

Below threshold performance	• Fixed remuneration • Zero annual bonus • No vesting under the PSP
Target performance	• Fixed remuneration • 75% of annual base salary as annual bonus • 25% vesting under the PSP
Maximum performance	• Fixed remuneration • 125% of annual base salary as annual bonus • 100% vesting under the PSP



Chief Executive (£000s)



Chief Financial Officer (£000s)

Note:
Fixed pay comprises salary from 1 January 2018 for Amjad Bseisu and 1 March 2018 for Jonathan Swinney, 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. 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 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 2017 Directors' Remuneration Report was voted on at the AGM held in May 2017, where 98.44% of the votes cast were in favour.

In accordance with the policy statements made in the 2016 Annual Report following consultation with shareholders in early 2017, the second and final planned reduction within this approved policy period to both the target and maximum bonus level has been implemented for 2018.

In late 2017 and early 2018, the Committee consulted with shareholders representing around 44% of the Company's shares concerning the proposed increase in Jonathan Swinney's fixed remuneration and clarifications with regard to the appropriate metrics used to measure the achievement, or otherwise, of PSP targets as set out in the Chairman of the Remuneration Committee's letter to shareholders on pages 66 to 68. Shareholders were supportive of the proposed salary increase for Jonathan Swinney. While broad support was also found for amending the description of targets under the PSP, with shareholders appreciating the need to maintain effective incentives for Directors and the Company's employees, the Committee felt it prudent to seek shareholders' approval for a formal policy amendment in accordance with its policy of ongoing open dialogue to ensure absolute clarity going forward.

Annual Report on Remuneration for 2017

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 2017

The Committee normally has three scheduled meetings per year. During 2017, it met on seven occasions in total to review and discuss base salary adjustments for 2018, the setting of Company performance and related annual bonus for 2018, amendments to the annual bonus scheme, and approval of share awards.

Committee members, attendees and advice

Member[1]	Date appointed Committee member	Attendance at scheduled meetings during the year
Helmut Langanger	16 March 2010	3/3
Philip Holland	12 October 2016	3/3
Carl Hughes	1 January 2017	3/3
Philip Nolan[2]	1 August 2012	2/2
John Winterman[3]	7 September 2017	1/1

Notes:

1 Laurie Fitch was appointed to the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees.

2 Philip Nolan stepped down from the Remuneration Committee on his retirement from the Board on 4 July 2017.

3 John Winterman became a Non-Executive Director on 7 September 2017, becoming a member of the Audit, Risk and Remuneration committees.

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 (Jock Lennox);
- The Chief Executive (Amjad Bseisu);
- The Chief Financial Officer (Jonathan Swinney);
- A representative of Aon New Bridge Street, appointed as remuneration adviser by the Committee in 2013, and then, as a replacement for Aon New Bridge Street, from Mercer Kepler on their appointment as remuneration adviser from 1 August 2017; 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 for the year ended 31 December 2017 together with comparative figures for 2016.

Single total figure of remuneration – Executive Directors

	'Single figure' of remuneration – £000s											
Director	**Salary and fees 2017**	Salary and fees 2016	**All taxable benefits 2017**	All taxable benefits 2016	**Annual bonus 2017[2]**	Annual bonus 2016[2]	**LTIP 2017[3]**	LTIP 2016[3]	**Pension 2017[4]**	Pension 2016[4]	**Total for 2017[5]**	Total for 2016[5]
Amjad Bseisu	**452**	430	**1**	1	**449**	318	**40**	142	**50**	50	**992**	941
Neil McCulloch[1]	**153**	–	**1**	–	**130**	–	**–**	–	**22**	–	**305**	–
Jonathan Swinney	**294**	280	**1**	1	**388**	290	**26**	87	**50**	50	**759**	708
Total[5]	**899**	710	**3**	2	**966**	608	**66**	229	**122**	100	**2,056**	1,649

Notes:

1 Neil McCulloch was elected an Executive Director of the Company on 25 May 2017 and, hence, his single total figure of remuneration for 2016 was £nil. Neil McCulloch stepped down from the Board on 11 December 2017. His salary, benefits and bonus in 2017 are pro-rated to reflect his qualifying service as an Executive Director (25 May 2017 to 10 December 2017 inclusive).

2 The annual bonus for 2017 for Amjad Bseisu and Jonathan Swinney 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 any portion deferred). Any 2018 Executive Director bonus for Amjad Bseisu and Jonathan Swinney that is above 100% of their respective salary has been paid in EnQuest PLC shares, deferred for two years, and subject to continued employment. For 2016, one third of the annual bonus amount was deferred into shares, in line with the remuneration policy in place at that time.

3 **PSP awarded on 27 March 2015 which vested on 27 March 2018:** the LTIP value shown in the 2017 single figure is calculated by taking the number of performance shares that have vested (10.92% of the performance conditions were achieved) multiplied by the average value of the EnQuest share price between 1 October 2017 and 31 December 2017, as the share price on 27 March 2018 was not known at the time of this report. No LTIP value is shown for Neil McCulloch for 2016 or 2017 as the PSP awards made in 2014 and 2015 did not vest whilst he was a member of the Board.
PSP awarded on 22 April 2014 which 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 actual share price of 38.00 pence on the vesting date of 22 April 2017. The 2016 value of the vested shares in the remuneration table has been updated from last year's value to represent the actual value received on the date of vesting.

4 Cash in lieu of pension.

5 Rounding may apply.

Single total figure of remuneration – Non-Executive Directors

The remuneration of the Non-Executive Directors for the year ended 31 December 2017 was as follows, together with comparative figures for 2016:

	'Single figure' of remuneration – £000s					
Director[1]	**Salary and fees 2017**	Salary and fees 2016	**All taxable benefits 2017**	All taxable benefits 2016	**Total for 2017[4]**	Total for 2016[4]
Jock Lennox	**150**	88	**–**	–	**150**	88
Carl Hughes	**60**	–	**–**	–	**60**	–
Helmut Langanger	**70**	70	**–**	–	**70**	70
Philip Holland	**60**	60	**–**	–	**60**	60
Philip Nolan[2]	**30**	53	**–**	–	**30**	53
John Winterman[3]	**16**	–	**–**	–	**16**	–
Total[4]	**386**	271	**–**	–	**386**	271

Notes:

1 Laurie Fitch became a Non-Executive Director on 8 January 2018, becoming a member of the Remuneration and Risk Committees.

2 Philip Nolan stepped down as a Non-Executive Director on his retirement from the Board on 4 July 2017.

3 John Winterman became a Non-Executive Director on 7 September 2017, becoming a member of the Audit, Risk and Remuneration Committees.

4 Numbers may not add up due to rounding.

Annual bonus 2017 – paid in 2018

The Committee's belief is that any short-term annual bonus should be tied to the overall performance of the Company. An Executive Director's annual bonus may also be tied to additional objectives that cover their own specific area of key accountabilities and responsibilities. Under the rebalancing provisions implemented for Executive Directors for 2017, the maximum bonus entitlement for the year ended 31 December 2017 as a percentage of base salary was reduced from 225% to 175% for Amjad Bseisu, Jonathan Swinney and Neil McCulloch (for the period that Neil was on the Board in 2017).

For Amjad Bseisu, the annual bonus for 2017 was wholly based on the Company Performance Contract results. For Jonathan Swinney and Neil McCulloch, 50% of their bonus potential was assessed against the Company Performance Contract and 50% on achievement against personal targets based on key objectives for the year in their area of responsibility.

Company Performance Contract

The details of the Company Performance Contract and personal objectives for Jonathan Swinney and Neil McCulloch are set out in the following tables showing the performance conditions and respective weightings against which the bonus outcome was assessed.

		Performance targets and payout				
Performance measure	Weighting			Amjad Bseisu	Jonathan Swinney	Neil McCulloch[1]
Production (Mboepd)	30.00%	Threshold: 45.0 Maximum: 51.0	Maximum bonus % available	52.50%	26.25%	26.25%
		Actual: 37.4	Actual % payout	0.00%	0.00%	0.00%
Cash opex ($ million)	15.00%	Threshold: 420 Maximum: 380	Maximum bonus % available	26.25%	13.125%	13.125%
		Actual: 363	Actual % payout	26.25%	13.125%	13.125%
Cash capex ($ million)	15.00%	Threshold: 425 Maximum: 370	Maximum bonus % available	26.25%	13.125%	13.125%
		Actual: 368	Actual % payout	26.25%	13.125%	13.125%
Net debt[2] ($ million) At end 2017	20.00%	Threshold: 2,000 Maximum 1,870	Maximum bonus % available	35.00%	17.50%	17.50%
		Actual: 1,921	Actual % payout	11.89%	5.95%	5.95%
Operational integration Magnus and SVT	20.00%	Threshold: Deal commitment and EnQuest appointed as SVT operator Maximum: Deal complete with EnQuest as Operator and Duty Holder of Magnus and SVT in Q4 2017	Maximum bonus % available	35.00%	17.50%	17.50%
		Actual: Maximum	Actual % payout	35.00%	17.50%	17.50%
Total bonus payout (% of salary)				**99.39%**	**49.70%**	**49.70%**

Notes:
1 Neil McCulloch stepped down from the Board on 11 December 2017. His bonus award disclosure in 2017 has been pro-rated to reflect his qualifying service as an Executive Director (25 May 2017 to 10 December 2017 inclusive).
2 Net debt excludes Payment In Kind ('PIK') figures.

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 2018 and was determined to be satisfactory.

Personal objectives were set individually for Jonathan Swinney and Neil McCulloch based on their key areas of focus for the year within their area of responsibility. Please note that for reasons of commercial sensitivity, full details of the target ranges are not being disclosed. However, the following tables highlight the key objectives and achievements as assessed by the Committee for the individual performance targets for the two Executive Directors.

Jonathan Swinney
Individual Performance Contract

Objective	Weighting	Maximum bonus available	Measures	Key achievements	Performance outcome			Percentage of bonus achieved
					Threshold	Target	Stretch	
Strategic: Business support	20.00%	17.50%	Ensure finance migration from Kraken project to Kraken operations and deliver cost related targets in Malaysia and North Sea	Effective management and delivery against all stretching targets and the finance migration to Kraken operations by July 2017				17.50%
Strategic: Financial control and discipline	20.00%	17.50%	Ensure effective and compliant financial control processes in place for the Group and North Sea operations	Achieved high level of internal controls compliance and implemented appropriate financial controls for the Group and North Sea operations				17.50%
Strategic: Organisation	20.00%	17.50%	Deliver JV finance improvement plan and relocate in Dubai	Delivery of plans achieved to stretching timetable by Q4 2017				17.50%
Operational: Compliance with key liquidity and funding measures to underpin business activity to stretching deadlines	40.00%	35.00%	Ensure appropriate liquidity and headroom and deliver additional funding arrangements to meet business needs. Delivery of M&A transaction in conjunction with corporate development	Achieved full compliance with waivers, revised covenants and amortisation rescheduling at very low cost. Kraken cargo price discount was achieved between target and stretch measures				29.73%
Total:		**87.50%**						**82.23%**

Neil McCulloch
Individual Performance Contract

Objective	Weighting	Maximum bonus available	Measures	Key achievements	Performance outcome			Percentage of bonus achieved
					Threshold	Target	Stretch	
Operational: Production	30.00%	26.25%	Delivery of discreet production targets across the Group's asset base	Actual delivery did not meet production targets except for delivery just above threshold target in respect of Malaysia				0.70%
Operational: Cash opex	15.00%	13.125%	Cash opex for: Kraken; North Sea excluding Kraken; and Malaysia	Delivered cash opex targets for two out of the three measures				7.76%
Operational: Cash capex	15.00%	13.125%	Cash capex for: Kraken; North Sea excluding Kraken; and Malaysia	Delivered cash capex targets for two out of the three measures				8.75%
Operational: Business development	20.00%	17.50%	Effective management of high cost supplier contracts	Mitigation of EnQuest's exposure was low and did not meet threshold level				0.00%
Operational: Integration of Magnus and SVT	20.00%	17.50%	Integration of Magnus and SVT operations into EnQuest	Delivered Magnus and SVT acquisition and integration				17.50%
Total:		**87.50%**						**34.71%**

The annual bonus summary for the Executive Directors for 2017 is shown in the table below. The Committee carefully assessed the achievement of the performance conditions against the Company Performance Contract and personal objectives for Jonathan Swinney and Neil McCulloch to determine the overall level of annual bonus for each Executive Director.

Performance measure[1]	Weighting	Amjad Bseisu		Jonathan Swinney		Neil McCulloch[2]	
		Max	Actual % payout of salary	Max	Actual % payout of salary	Max	Actual % payout of salary
Production	30.00%	52.50%	0.00%	26.25%	0.00%	26.25%	0.00%
Cash opex Cash capex	30.00%	52.50%	52.50%	26.25%	26.25%	26.25%	26.25%c
Net debt	20.00%	35.00%	11.89%	17.50%	5.95%	17.50%	5.95%
Integration of Magnus and SVT	20.00%	35.00%	35.00%	17.50%	17.50%	17.50%	17.50%
Sub-total		175.00%	**99.39%**	87.50%	**49.70%**	87.50%	**49.70%**
Personal objectives	n/a	n/a	n/a	87.50%	82.23%	87.50%	34.71%
Total payout (%)[3]		175.00%	**99.39%**	175.00%	**131.93%**	175.00%	**84.41%**
Total payout (% of maximum)			**56.79%**		**75.38%**		**48.23%**
Total 2017 bonus award (£)			**£448,756**		**£387,865**		**£129,519**

Notes:
1 In relation to the financial measures, threshold, target and stretch performance pays out at 0%, 48.5% and 100% of maximum respectively and on a straight-line basis in between threshold and target performance and between target and stretch performance.
2 Neil McCulloch's annual bonus award disclosure is pro-rated to reflect qualifying service as an Executive Director (25 May to 10 December 2017 inclusive).
3 Any bonus that exceeds 100% of the Executive Director's salary is converted into EnQuest shares to be retained for a further two years until April 2020.

2015 PSP awards that vest in 2018
The LTIP award made on 27 March 2015 was based on the performance to the year ended 31 December 2017 and will vest on 27 March 2018.

The performance targets for this award and actual performance against those targets over the three-year financial period were as follows:

			Performance conditions and weighting			
Grant date	Vesting date	Performance period	Relative TSR	Production growth	Reserves growth	Total award
27 Mar 2015	27 Mar 2018	1 Jan 2015–31 Dec 2017	30.00%	50.00%	20.00%	100.00%
Base level			–	27,895 Boepd	220.0 MMboe	
Threshold			Median (14th position)	39,190 Boepd	220.0 MMboe	
Maximum			Upper quartile (7th position)	48,203 Boepd	242.0 MMboe	
Actual performance achieved			**(13th position)**	**37,405 Boepd**	**210.3 MMboe**	
Percentage meeting performance conditions and total vest			**10.92%**	**0.00%**	**0.00%**	**10.92%**

The table below shows the number of nil cost options awarded on 27 March 2015 that vested on 27 March 2018 and their value at 31 December 2017. This figure is calculated by taking the average closing share price on each trading day of the period 1 October 2017 to 31 December 2017 and is used as the basis for reporting the 2017 'single figure' of remuneration. The actual value of these shares recorded in the remuneration table will be updated in 2018 to represent the actual value received on the day of vesting.

Name	No. of shares	Portion vesting	No. of shares vesting	Average share price £	Value at 31 Dec 2017 £
Amjad Bseisu	1,390,402	10.92%	151,832	0.26285	39,910
Jonathan Swinney	901,439	10.92%	98,437	0.26285	25,875

Note:
As Neil McCulloch was not a Board member at the date of the PSP grant in 2015 or at the award vesting date in March 2018, his remuneration is not included in this table.

September 2017 PSP award grant
After due consideration of business performance in 2017, the Remuneration Committee awarded the Executive Directors the following performance shares on 12 September 2017 following the AGM on 25 May 2017:

	Face value (% of 2016 salary)	Face value at date of grant	No. of shares	Performance period
Amjad Bseisu	250%	£1,075,000	4,134,615	1 Jan 2017 – 31 Dec 2019
Jonathan Swinney	250%	£700,000	2,692,307	1 Jan 2017 – 31 Dec 2019

Summary of performance measures and targets – September 2017 PSP grant
The 2017 PSP share awards granted on 12 September 2017 have four sets of performance conditions associated with them, over a three year financial performance period:

- 30% of the award relates to TSR relative to a comparator group of 13 oil and gas companies over the same period;
- 30% relates to production growth on a CAG basis from a 2017 base level;
- 10% relates to reserves growth (on a relative growth basis from a 2017 base level); and
- 30% calculated on net debt reduction from a 2017 base net debt figure.

Vesting is determined on a straight-line basis between threshold and maximum for all of the performance conditions.

The performance period for the award will be 1 January 2017 to 31 December 2019 but the awards will not vest until 12 September 2020.

2017 PSP – schedule for vesting in 2020

	Relative TSR Weighting 30%		Production growth Weighting 30%		Reserves growth Weighting 10%		Reduction in net debt Weighting 30%	
	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[1]	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	15% reduction	25%
Maximum[1]	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	30% reduction (or better)	100%

Note:
1 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 2018:

Year of grant	Production growth – base level	Reserves growth – base level	Net debt – base level
2015	27,895 Boepd	220.0 MMboe	n/a
2016	36,567 Boepd	216.0 MMboe[1]	n/a
2017	39,751 Boepd	215.5 MMboe	$1,796.5 million
2018	37,405 Boepd	210.3 MMboe	$1,991.4 million

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

The comparator group companies for the TSR performance condition relating to the 2017 PSP award are as follows:

FTSE 350	FTSE All-Share	FTSE AIM – Top 150	NASDAQ OMX Stockholm	Other
Cairn Energy	Premier Oil	Amerisur Resources	Africa Oil	Genel Energy
Ophir Energy	Soco International	Faroe Petroleum	Blackpearl Resources	
Tullow Oil		Rockhopper Exploration	Lundin Petroleum	
		Bowleven		

The number of PSP awards outstanding as at 31 December 2017 are as follows:

	Total shares awarded	Performance period	Performance conditions (and weighting)	Vesting date
Grant date – March 2015			TSR (30%)	27 Mar 2018
Amjad Bseisu	1,390,402	1 Jan 2015 – 31 Dec 2017	Production growth (50%)	
Jonathan Swinney	901,439		Reserves growth (20%)	
Grant date – April 2016			TSR (50%)	22 Apr 2019
Amjad Bseisu	2,260,802	1 Jan 2016 – 31 Dec 2018	Production growth (40%)	
Jonathan Swinney	1,472,150		Reserves growth (10%)	
Grant date – September 2017			TSR (30%)	12 Sep 2020
Amjad Bseisu	4,134,615	1 Jan 2017 – 31 Dec 2019	Production growth (30%)	
Jonathan Swinney	2,692,307		Reserves growth (10%)	
			Net debt reduction (30%)	

Note:
As Neil McCulloch was not a Board member at the date of award of his PSP grants in 2015, 2016 or 2017, his awards are not included in this table.

Pension allowance
Executive Directors do not participate in the EnQuest pension plan and instead receive cash in lieu. Both Amjad Bseisu and Jonathan Swinney received £50,000, with Neil McCulloch receiving £40,000. These are equivalent to 11.1% of Amjad Bseisu's salary, 17.0% of Jonathan Swinney's salary and 14.3% of Neil McCulloch'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 2017 are shown below:

In 2017, the following awards were granted, vested and lapsed for the Executive Directors

PSP	31 December 2016	Granted	Lapsed	31 December 2017	Vesting period	Expiry date
Amjad Bseisu	660,946		290,156	370,790	22 Apr 2014 – 22 Apr 2017	22 Apr 2024
	1,390,402			1,390,402	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
	2,260,802			2,260,802	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
		4,134,615		4,134,615	12 Sep 2017 – 12 Sep 2020	12 Sep 2027

PSP	31 December 2016	Granted	Lapsed	31 December 2017	Vesting period	Expiry date
Jonathan Swinney	402,257		176,591	225,666	22 Apr 2014 – 22 Apr 2017	22 Apr 2024
	901,439			901,439	27 Mar 2015 – 27 Mar 2018	27 Mar 2025
	1,472,150			1,472,150	22 Apr 2016 – 22 Apr 2019	22 Apr 2026
		2,692,307		2,692,307	12 Sep 2017 – 12 Sep 2020	12 Sep 2027

Note:
As Neil McCulloch was not a Board member at the vesting date of the above PSP grants, his awards are not included in this table.

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).

Payments for Loss of Office
The following payments were made to Neil McCulloch for loss of office. Neil stepped down from the Board on 11 December 2017 and left the Company on 31 December 2017.

Description	Amount
Payment in lieu of notice Paid in monthly instalments over a maximum 12 month period and subject to mitigation.	Comprises: • £280,000 in lieu of salary. • £41,667.68 in lieu of cash benefits covering pension, life assurance and personal accident insurance.
Statutory redundancy payment	£2,200.50. Payment made in January 2018.
Discretionary 2017 bonus award This represents the Remuneration Committee's assessment of an appropriate bonus for the entire 2017 year taking into account performance against relevant targets.	£140,000 (in cash). Payment made in March 2018.
Holiday entitlement Reflecting 12 days of accrued but unused holiday entitlement.	£12,923. Payment made in January 2018.
Share awards The Remuneration Committee exercised its discretion to award 'good leaver' status for outstanding 2014, 2015, 2016 and 2017 awards.	All unvested awards under the EnQuest PSP, DBSP and RSP plans will vest at the time they would normally vest in accordance with the rules of the relevant plan, subject to the satisfaction of any applicable performance conditions and time apportionment. Awards granted to Neil McCulloch during 2017 under the EnQuest PLC PSP will continue to be subject to malus and clawback for up to three years. Neil McCulloch has six months from 31 December 2017 to exercise any outstanding option using his accumulated savings under EnQuest's SAYE share option scheme.
Medical insurance	Private medical insurance continues on the terms currently available to him and his family until 31 December 2018 or such earlier date on which he takes up an alternative remunerated position.

Payments to past Directors
There were no payments made to past Directors during 2017.

Statement of Directors' shareholdings and share interests

Executive Directors are currently required to build up and hold shares in the Company worth 200% of salary and 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 (this includes shares which are beneficially owned directly or indirectly by family members of an Executive Director).

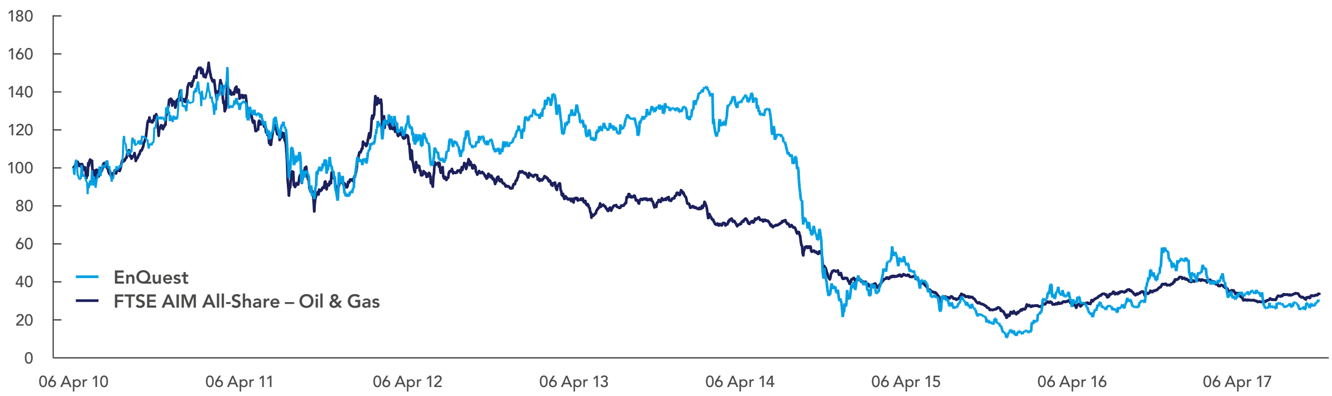
	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the PSP	Vested but not exercised under the RSP	Sharesave	Executive Deferrals	Total at 31 December 2017	Value of shareholding as a % of salary[1]
Amjad Bseisu	103,258,316[2]	6012%	7,785,819	1,545,765	2,404,260	0	1,140,868	116,135,028	6761%
Jonathan Swinney	203,146	18%	5,065,896	934,534	764,574	61,475	1,304,854	8,334,479	745%
Jock Lennox	28,888	n/a	n/a	n/a	n/a	n/a	n/a	28,888	n/a
Helmut Langanger	288,889	n/a	n/a	n/a	n/a	n/a	n/a	288,889	n/a
Philip Holland	108,332	n/a	n/a	n/a	n/a	n/a	n/a	108,332	n/a
Carl Hughes	20,000	n/a	n/a	n/a	n/a	n/a	n/a	20,000	n/a
John Winterman	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Laurie Fitch[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes:
1 Shares are valued by taking the average closing share price on each trading day of the period 1 October 2017 to 31 December 2017.
2 103,141,033 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. The remaining 117,283 shares are held by Amjad Bseisu directly.
3 Laurie Fitch joined the Board on 8 January 2018, becoming a member of the Remuneration and Risk Committees.

Information not subject to audit

Total Shareholder Return and CE total remuneration

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE AIM All-Share Oil & Gas, also measured by TSR. 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 2017 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:

	2011	2012	2013	2014	2015	2016	**2017**
'Single figure' of total remuneration (£000s)	731	910	1,356	817	884	941	**992**
Annual bonus (as a % of maximum)	42%	60%	50%	24%	27%	33%	**57%**
Long-term incentive vesting rate (as a % of maximum PSP)	–	–	67%	79%	77%	56%	**11%**

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 the change between the current and previous years:

	2016 $ million	**2017 $ million**
EBITDA	477	**304**
Distribution to shareholders	0	**0**
Total employee pay	87	**80**

Increase in the Chief Executive's pay relative to the workforce between 2016 and 2017

	Base salary %	Bonus %	Benefits %
Amjad Bseisu	5.0%	41.0%	0.0%
UK employees (average)	1.0%	18.1%	0.0%

Statement of implementation of the remuneration policy for the year ending 31 December 2018

Base salary and 2018 pay review

As stated in the annual statement to this report, the remuneration for the Executive Directors is geared towards variable pay linked to long-term performance targets, with base salaries currently set in relation to benchmarks 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 2018:

Name	Salary for 2017	Salary for 2018	% increase
Amjad Bseisu	£451,500	£460,530	2.0
Jonathan Swinney	£294,000	£323,000	9.9

The increase for Amjad Bseisu was implemented from 1 January 2018. The increase for Jonathan Swinney, following consultation and support expressed by majority shareholders, was implemented from 1 March 2018 taking into account the financial and operational performance of the Company at that time.

The Company employees are, in general, receiving salary increases averaging approximately 2.0%.

Pension and other benefits

The Company will continue to pay a cash benefit in lieu of pension of up to £50,000 plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third party providers.

Annual bonus

For the year ended 31 December 2018, the target and maximum annual bonus opportunities will be significantly reduced from 85% to 75% of salary at target and from 175% to 125% of salary at maximum as part of the second phase of the previously approved executive remuneration rebalancing as shown in the following table:

	Target bonus				Maximum bonus			
	2018 % of salary	2017 % of salary	2016 % of salary	**% of salary decrease over two years**	2018 % of salary	2017 % of salary	2016 % of salary	**% of salary decrease over two years**
Amjad Bseisu	75%	85%	100%	**25%**	125%	175%	225%	**100%**
Jonathan Swinney	75%	85%	100%	**25%**	125%	175%	225%	**100%**

The annual bonus scheme for 2018 is structured as follows:

- Awards will be determined based on a balanced combination of financial and operational performance measures;
- 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 responsibility;
- Each part of the bonus will represent a discrete element which will be added together to determine the performance award for the year; and
- Stretching targets will continue to apply to achieve maximum payout.

The 2018 metrics and weightings, which will determine the level of short-term incentive awards for the Directors, are set out on the following page.

Company 2018 performance measures scorecard

Metric	Weighting
Production	25%
Opex/capex	30%
Net debt	15%
Operations	30%

Notes:
1 Precise targets are commercially sensitive and are not being disclosed in advance at this time.
2 Performance in HSE&A is central to EnQuest's overall results. This category is used as an overlay on overall Company performance.

Maximum bonus will only be payable when performance significantly exceeds expectations. To the extent that the targets are no longer commercially sensitive, they will be disclosed in next year's Report.

Any amount of bonus earned above 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

Performance share awards
2018 PSP awards
After due consideration of business performance in 2017, 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 in April 2018.

Summary of 2018 PSP performance measures and targets
The PSP share awards granted in 2018 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 (on a CAG basis);
- 10% relates to reserves growth (on a relative growth basis); and
- 30% relates to net debt (on a relative reduction basis).

2018 PSP – schedule for 2021 vesting

	Relative TSR		Production growth		Reserves growth		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 25% reduction	0%
Threshold	Median	25%	10% growth from base (CAG)	25%	105% of base	25%	25% reduction	25%
Maximum	Upper quartile (or better)	100%	20% growth from base (CAG) (or better)	100%	110% of base (or better)	100%	35% reduction (or better)	100%

2018 PSP – performance target base levels

Production growth base level	Reserves growth base level	Net debt
37,405 Boepd	210.3 MMboe	$1,991.4m

2018 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

Directors' Remuneration Report CONTINUED

Non-Executive Directors
The fees for the Non-Executive Directors with effect from 1 January 2018 are:

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

There is no increase in fees for 2018.

Advisers to the Committee
With Aon New Bridge Street's term of support to the Company expiring during 2017, a process was undertaken to receive presentations from a number of professional firms to provide remuneration adviser support to the Company. As a result of this exercise, Mercer Kepler were appointed as remuneration advisers to the Committee with effect from 1 August 2017. Aon New Bridge Street provided advice to the Remuneration Committee until the expiry of their term of support to the Company.

The Committee satisfied itself that the advice given from both organisations was objective and independent by reviewing it against other companies in EnQuest's comparator group. Both Aon New Bridge Street and Mercer Kepler are signatories to the Remuneration Consultants Group Code of Conduct which sets out guidelines for managing conflicts of interest. Neither Aon New Bridge Street nor Mercer Kepler now provide any other services to the Company.

The fees in respect of 2017 paid to Aon New Bridge Street totalled £86,309 (excluding VAT) and to Mercer Kepler totalled £34,560 (excluding VAT). Both sets of fees 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 25 May 2017 in respect of the remuneration policy and Directors' 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.

	Number of votes cast for	Percentage of votes for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration policy (2017)	597,533,995	97.31%	16,505,214	2.69%	614,039,209	264,613
Remuneration Report (2017)	604,468,120	98.44%	9,569,982	1.56%	614,038,102	265,720

Helmut Langanger
Chairman of the Remuneration Committee
19 March 2018

Nomination Committee Report

> The core work of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, expertise and experience in order to support the strategy of the Company.

Dear Fellow Shareholder
I am pleased to present to you the report of the work of the Nomination Committee during 2017.

The core work of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, expertise and experience in order to support the strategy of the Company. We achieve this by continuously reviewing the Board composition and skills and ensuring that strong succession planning is in place. Currently, the Board consists of six Non-Executive Directors and two Executive Directors, who collectively bring a diverse mix of skills and experience to the Company and collaborate to provide strong leadership.

As reported in the Nomination Committee Report last year, the main focus of the Committee in 2017 was to continue to manage the succession of the Non-Executive Directors and to focus on succession planning of the Executive Directors, senior management and also development planning for high potential individuals within the Company (a further update to these activities is provided on page 88).

The focus on succession planning has resulted in a number of changes to the composition of the Board and its Committees. As explained in my Chairman's letter on pages 54 to 55, Philip Nolan and Neil McCulloch stepped down from the Board in July and December 2017 respectively. Carl Hughes, as reported in my 2016 Report, joined on 1 January 2017 while John Winterman joined in September 2017, bringing with him significant oil and gas experience in global exploration, business development and asset management. Laurie Fitch joined us in January this year, bringing with her a wealth of finance and industrial experience. More detail on the Company's recruitment process can be found later on this page.

Jock Lennox
Chairman of the Nomination Committee
19 March 2018

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 scheduled meetings are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Jock Lennox	8 September 2016	6/6
Amjad Bseisu	22 February 2010	6/6
Helmut Langanger	16 March 2010	6/6

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 Non-Executive Directors

We apply a formal, rigorous and transparent procedure for appointments of new Directors to the Board. For the appointments of Carl Hughes, John Winterman and Laurie Fitch 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 and to screen for potential conflicts of interest. The Committee also gives careful consideration to other existing commitments a candidate may have and whether they will be able to devote the appropriate amount of time in order to fully meet what is expected of them. Once the Committee has identified a suitable candidate a recommendation is made to the Board for appointment.

Committee activities during the year

The Nomination Committee met six times in 2017 and its key activities included:

Assessment of the performance of each Board member by the Chairman

In December 2017, 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

One of the key priorities for the Nomination Committee in 2017 was to continue to manage the succession of the Non-Executive Directors in order to ensure that effective planning was being undertaken and, where necessary, acted upon with regard to the phasing of Non-Executive Director retirements. Over the past year the Committee has considered: the Non-Executive Director to Executive Director ratio; the skill sets currently represented and needed for the future; and the Board's diversity.

Development and staff succession planning

An additional priority for the Nomination Committee was to focus on succession planning of the Executive Directors, senior management and development planning for high potential individuals within the Company. This focused on: leadership within the organisation; the range of technical knowledge and skills; development and execution of strategy; and staff development. In order to assist the process, senior managers have been invited to attend Board dinners and a breakfast was organised for high potential individuals to meet and engage with Board members. In addition, senior managers are encouraged to present at Board meetings when their specialist area of expertise is under discussion.

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.

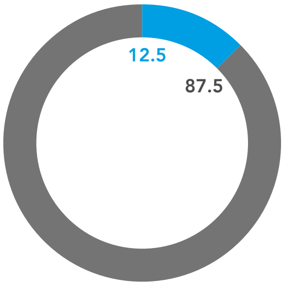
Priorities for the coming year

Even without changes to the Corporate Governance Code as proposed by the Financial Reporting Council, in 2019 Helmut Langanger will no longer be considered independent. Accordingly, the Company will be required to replace its Senior Independent Director and Chairman of the Remuneration Committee. In 2018, the Committee will be preparing for this as well as preparing for any further changes which may be necessitated by the new Code.

Boardroom diversity

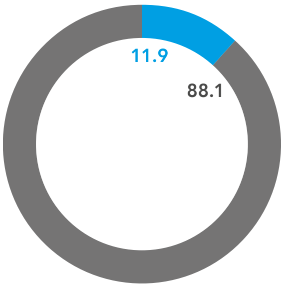
The Board's policy was reviewed in March 2018 and it was agreed that the Board's policy should continue to be that while we will work hard to ensure that we recruit from a diverse background of candidates, not just in relation to gender, we will continue to recruit the best candidate available for the job on merit and against objective criteria in order to achieve the most effective Board possible and to enable it to discharge its duties and responsibilities. We continue to seek to achieve the appropriate balance of the Board as we continue our succession planning and were pleased to welcome Laurie Fitch in January 2018.

Directors %

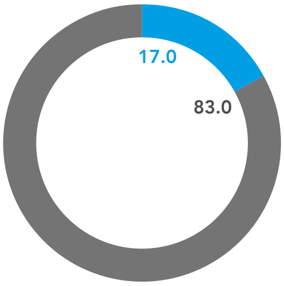


Senior management and total employee figures include EnQuest's staff in Dubai, Malaysia and the UK:

Senior managers %



Total employees %



As explained on page 37, on 1 December 2017, EnQuest completed the acquisition of the Magnus oil field and SVT. 320 new members of staff, who are predominantly male, joined the Company from BP and this is reflected in increased male to female ratios compared to those reported in 2016. The Group's compliance with Gender Pay legislation is disclosed on pages 37 to 38 and on the Group's website www.enquest.com.

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 to 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.

Risk Committee Report

"The Board and management of EnQuest continue to focus on refining its Risk Management Framework and processes for the identification, management and mitigation of risk in accordance with its risk appetite and the strategic tenets through which the Company intends to deliver its growth strategy."

Dear Fellow Shareholder

I am pleased to present EnQuest's first Risk Committee Report since the Committee was established as a Committee of the Board in 2016. The main responsibilities of the Committee are:

- To support the implementation and progression of the Group's Risk Management Framework; and
- To conduct detailed reviews of key non-financial risks not reviewed within the Audit Committee.

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

The Committee is comfortable that management is identifying, managing and mitigating risks in accordance with the Group's risk appetite and strategic tenets, effectively supporting the delivery of the Group's growth strategy.

Philip Holland
Chairman of the Risk Committee
19 March 2018

Risk Committee membership

Membership of the Committee and attendance at the four meetings held during 2017 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Philip Holland (Committee Chairman)	25 January 2016	4/4
Laurie Fitch[1]	8 January 2018	n/a
Carl Hughes	1 January 2017	4/4
Neil McCulloch[2]	1 September 2016	4/4
Philip Nolan[3]	8 September 2016	2/2
John Winterman[4]	7 September 2017	2/2

Notes:
1 Laurie Fitch was appointed as a Non-Executive Director on 8 January 2018, becoming a member of the Risk and Remuneration Committees.
2 Neil McCulloch was appointed as a Director on 25 May 2017 and stepped down from the Board and all Board Committees on 10 December 2017.
3 Philip Nolan stepped down from the Board and all Board Committees following his retirement on 4 July 2017.
4 John Winterman was appointed as a Non-Executive Director on 7 September 2017, becoming a member of the Audit, Risk and Remuneration Committees.

Committee activities during the year

During 2017, the Committee undertook specific detailed reviews of the following key risk areas and the Group's associated assurance and control processes, leading to certain refinements of these processes:

- Subsurface risk management and project development stage gates and reviews;
- Emergency response and crisis management;
- Hydrocarbon releases and spills; and
- Cyber-security.

Furthermore, in light of the review of the threats posed by cyber-security, the Committee recommended the addition of 'IT security and resilience' as a principal risk to EnQuest, which in turn ensures the risk receives the appropriate level of focus on mitigations given the Group's low appetite for this risk. For further information, please see the Risks and Uncertainties section on pages 40 to 47 in this year's Annual Report.

During the year, the Committee also initiated a process to streamline and further enhance the Group's Risk Management Framework, keeping in view the expected growth and ongoing evolution of the business. This included engaging appropriate resources within the organisation, refreshing our view on all risk areas faced by the Group and reviewing the mechanisms for assessing the potential causes and impacts of these risks to identify the related preventative and containment controls which should be in place to provide assurance that these risks are appropriately identified, managed and mitigated. As part of this process, we progressed the adoption of a uniform method of recording risks and mitigations across the Group. In other matters, the Committee initiated an employee survey and feedback process with a view to assessing employee morale and identifying any appropriate actions to ensure that EnQuest is an attractive place to work.

Priorities for the coming year

During the course of 2018, the Committee intends to continue its focus on undertaking detailed analyses of specific risk areas. The Committee will pay particular attention to assessing how the mechanisms for the identification and evolution of the preventative and containment controls for those individual risk areas have been implemented. It also expects to enhance the Risk Management Framework through improved tracking and measurement of risk mitigation.

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 2017. These will be laid before shareholders at the AGM to be held on Thursday 24 May 2018.

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 to 51. All the Directors will offer themselves for election or re-election at the AGM on 24 May 2018. All the current Directors served throughout the year, except for John Winterman who was appointed on 7 September 2017 and Laurie Fitch who was appointed on 8 January 2018. Both John and Laurie will therefore seek election by shareholders for the first time. As disclosed elsewhere, Philip Nolan, who served on the Board since 2012, and Neil McCulloch, who joined the Board after the 2017 AGM, stepped down as Directors in 2017.

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. In addition, a staff culture survey was conducted in July 2017 and more information on this is found on page 38. 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. 64% of eligible staff participate in SAYE.

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 Guidance and Transparency Rules ('DTR'):

Directors' interests

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

Name	At 31 December 2017	At 19 March 2018
Amjad Bseisu[1]	103,258,316	103,258,316
Helmut Langanger	288,889	288,889
Jock Lennox	28,888	28,888
Laurie Fitch[2]	n/a	0
Carl Hughes	20,000	20,000
Philip Holland	108,332	108,332
Jonathan Swinney	203,146	203,146
John Winterman	0	0

Notes:
1 103,141,003 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. The remaining 117,283 shares are held directly by Amjad Bseisu.
2 Laurie Fitch was appointed as a Non-Executive Director of the EnQuest Board with effect from 8 January 2018.

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 allotment of additional shares to the Company's Employee Benefit Trust (the 'EBT') on 18 October 2017 there were 1,159,398,871 Ordinary shares in issue. Following the admission, there were 1,186,084,304 Ordinary shares in issue at the end of the year (2016: 1,159,398,871). 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 131. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2017 or up to and including 19 March 2018, being the date of this Directors' Report.

Name	Number of Ordinary shares held at 31 December 2017	% of issued share capital held at 31 December 2017	Number of Ordinary shares held as at 19 March 2018	% of issued share capital held as at 19 March 2018
Aberforth Partners	105,292,001	8.88	105,292,001	8.88
Amjad Bseisu Family[1]	103,258,316	8.71	103,258,316	8.71
Baillie Gifford & Co Ltd	82,052,014	6.92	76,139,930	6.42
EnQuest Employee Benefit Trust	56,023,671	4.72	55,938,254	4.72
Majedie Asset Management	52,332,402	4.41	50,963,591	4.30
Swedbank Robur Fonder AB	48,917,170	4.12	48,917,170	4.12
Hargreaves Lansdown Asset Management	45,514,428	3.84	47,697,584	4.02

Note:
1 103,141,003 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. The remaining 117,283 shares are held directly by Amjad Bseisu.

Company share schemes

The trustees of the EBT purchased 26,685,433 Ordinary shares in the Company during 2017, having been funded by a loan by the Company of £1,334,271.65. At year end, the Trust held 4.72% of the issued share capital of the Company (2016: 2.89%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

Annual General Meeting

The Company's AGM will be held at Sofitel London St James, 6 Waterloo Place, London, SW1Y 4AN on 24 May 2018. 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 Link Market Services (formerly known as Capita Asset Services). 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 159.

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;
- Kittiwake;
- EnQuest Producer FPSO;
- PM8/Seligi & Tanjong Baram (Malaysia);
- Sullom Voe Oil Terminal, excluding the third party operated power station (from 1 December 2017);
- Kraken FPSO (from 12 February 2017);
- Magnus (from 1 December 2017);
- 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.

MCR (Operational Control) Scope

EnQuest has a number of financial interests, e.g. joint ventures and joint investments, as covered in this Annual Report for which it does not have operational control. In line with MCR and ISO 14064-1 guidance, only those assets where EnQuest has operational control greater than 50% are captured within the MCR reporting boundary. Where EnQuest has less than 50% operational control of an asset it is not included within the MCR reporting boundary. Hence, the MCR operational control boundary is different to EnQuest's financial boundary. In line with MCR guidance, this is fully disclosed.

ISO-14064 Verified Scope

EnQuest has voluntarily opted to have 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 MCR guidance. Some data for the Group's Malaysian assets (Seligi and associated land based offices), SVT and Magnus does not currently meet ISO 14064-1 requirements, and so is excluded from the reported figures. Efforts are being made to improve data quality with the objective of including these assets within the ISO 14064-1 verified scope in future years. SVT refrigerants and fugitives are excluded from both MCR and ISO 14064-1 verified scopes due to no data being available.

		2017		2016		2013
	MCR reporting year	MCR (Operational Control) Scope	ISO-14064 Verified Scope	MCR (Operational Control) Scope	ISO-14064 Verified Scope	Baseline
Scope 1 (direct combustion) and Scope 2 (consumed electricity) emissions	Emissions tCO_2e	1,281,820	732,818	1,250,452	746,029	526,307
	Intensity ratio $kgCO_2e$/BOE	61.33	52.12	62.11	50.26	39.31

Note:
1 BOE = barrel of oil equivalent.

Emissions relating to Voluntary Scope 3 (Helicopter Flights UK Operations) have not been reported in 2017 with the Group's resources focused on day one readiness and safe operations associated with the acquisition of Magnus, SVT and associated infrastructure.

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 prepayment facility agreement which includes provisions that, upon a change of control, permit the lender not to provide certain funding under that facility and to cancel its commitment to provide that facility and require prepayment of the credit which has already been advanced to the borrower (EnQuest Heather Limited); (c) the Company's Euro Medium Term Note Programme (under which the Company has in issue Euro Medium Term Notes due 2022 with an aggregate nominal amount of £166 million, including capitalised interest, at the date of this report), 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 (d) under the indenture governing the Company's high yield notes due 2022, which at the date of this report have an aggregate nominal amount of $721 million, including capitalised interest, if the Company undergoes certain events defined as constituting a change of control, each holder of the high yield notes may require the Company to repurchase all or a portion of its notes at 101% of their principal amount, plus any accrued and unpaid interest.

Political donations
At the 2017 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 2017 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 have 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 64.

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 02 to 47. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 31 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 144 to 146 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 DTR are found on the following pages of the Company's Annual Report and are incorporated into the Directors' Report by reference:

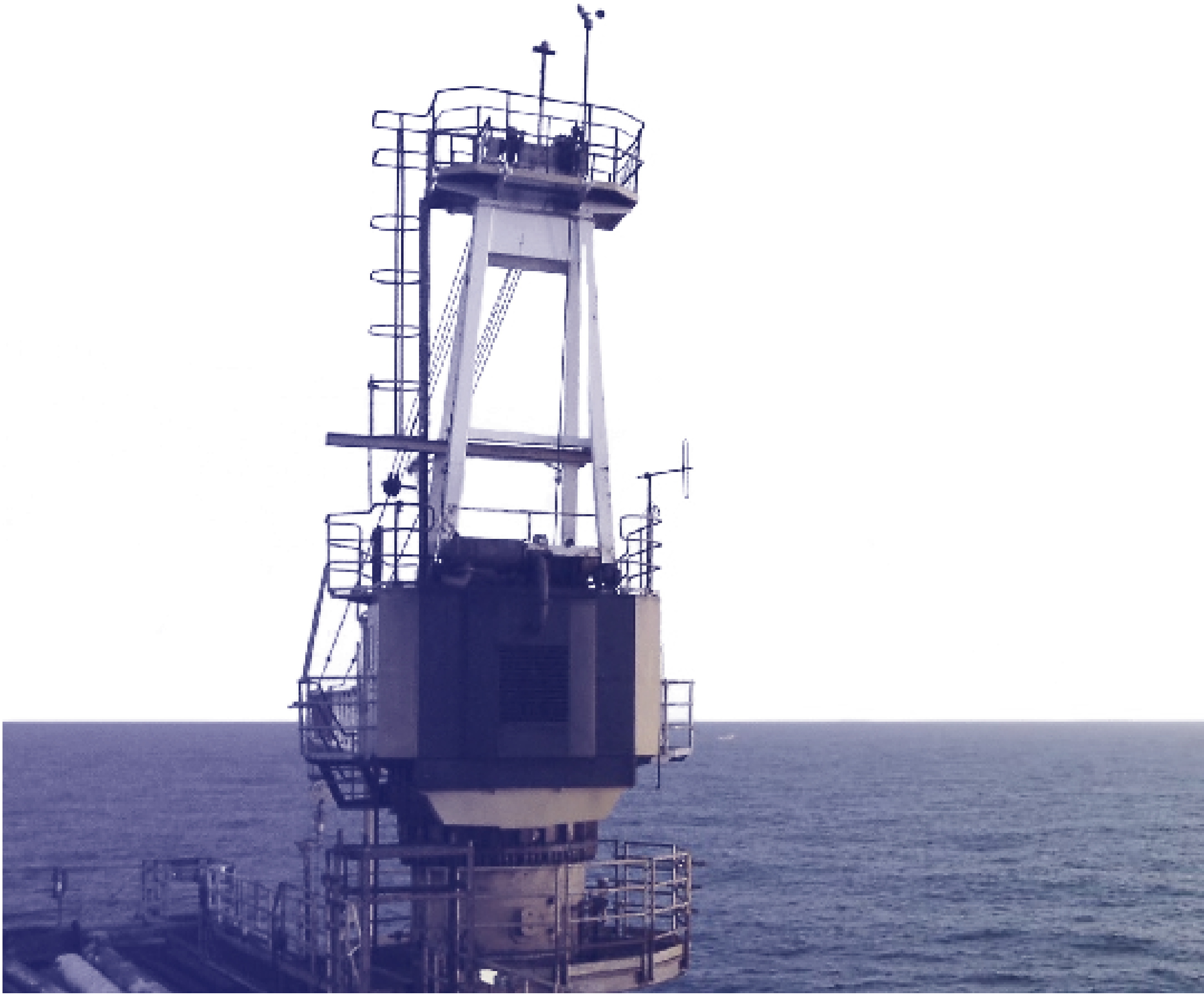
Disclosure	Page number
Future developments	11
Acquisitions and disposals	148 to 149
Fair treatment of disabled employees	38
Anti-slavery disclosure	39
Corporate Governance Statement	54 to 59
Gender diversity	88
Financial risk and financial instruments	34
Important events subsequent to year end	147
Branches outside of the UK	147

The Directors' Report was approved by the Board and signed on its behalf by the Company Secretary on 19 March 2018.

Stefan Ricketts
Company Secretary

Notes

FINANCIAL STATEMENTS



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 61 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 and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- 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 Practice including FRS 101 '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 2017	Company Balance sheet as at 31 December 2017
Group Balance Sheet as at 31 December 2017	Company Statement of Changes in Equity at 31 December 2017
Group Statement of Changes in Equity at 31 December 2017	Notes 1 to 12 to the Company financial statements
Group Statement of Cash Flows for the year ended 31 December 2017	
Notes 1 to 30 to the Group financial statements for the year ended 31 December 2017	

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. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK')) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements which indicates that, should the Base or Downside cases not be achieved, the Group may need to achieve farm down options, other potential asset sales or other funding options which represents a material uncertainty. As stated in note 2, this material uncertainty may cast significant doubt on the Group's or the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how the scope of our audit has responded to the risk relating to going concern:

- We audited the key assumptions used in the Directors' assessment and cash flow model including oil prices, production profiles and future costs. We assessed the reasonableness of potential mitigants and the Company's ability to action these mitigants in their going concern assessment, including the ability to achieve potential asset sales and other funding options. We considered whether management has exercised any bias in selecting their assumptions;
- We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom and assessed the reasonableness of the mitigating factors, in particular the Group's ability and plan to dispose of certain assets to improve its liquidity position;
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts;
- We tested the covenant calculations to ensure they had been calculated correctly in accordance with the revolving credit facility agreement;
- We agreed the available facilities and arrangements to underlying agreements and external confirmation from debt providers. We also tested covenant calculation forecasts performed by management; and
- We checked the disclosures made in the Annual Report and Accounts are adequate.

Key observations communicated to the Audit Committee

In our view 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.

Based on our work on the going concern assessment prepared by management, we agree that a material uncertainty exists in respect of going concern and that this has been appropriately disclosed in the financial statements.

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

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

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- The disclosures in the Annual Report set out on pages 40 to 47 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 40 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 Directors' statement set out on pages 34 to 35 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on pages 34 to 35 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.

Overview of our audit approach

Key audit matters	• Estimates of oil and gas reserves • Impairment of the carrying value of tangible and intangible assets (including goodwill) • Complexity of the deferred taxation calculation • Complexity of the acquisition accounting for Magnus/SVT
Audit scope	• We performed an audit of the complete financial information of two components North Sea and Malaysia (full scope) • The components where we performed full audit procedures accounted for 100% of earnings before interest, tax, depreciation and amortisation ('EBITDA'), 100% of revenue and 95% of total assets
Material uncertainty related to going concern	• We audited management's going concern assessment and checked that adequate disclosures have been made in the financial statements
Materiality	• Overall the Group materiality is $6.1 million which represents 2% of EBITDA

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimates of oil and gas reserves		Risk direction: ↔

Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions, going concern assessment and fair value model for Magnus acquisition (Fraud Risk)

Refer to the Audit Committee Report (pages 60 to 65); Accounting policies (Note 2 of the Annual Report and Accounts); and the Strategic Report (pages 40 to 47)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
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 PSAs and RSAs and joint venture arrangements in place. We will focus on management's estimation process including whether bias exists in the determination of reserves and resources. The risk has remained the same compared to last year.	Our audit procedures have focused on management's estimation process, including whether bias exists in the determination of reserves, and the role of external specialists in reviewing management's estimations. We carried out procedures to understand and walkthrough EnQuest's internal process for oil and gas reserves estimation. We evaluated the competence of internal specialists and the competence and objectivity of external specialists. We also obtained the report of the external specialists on their review of the reserves for the UK North Sea and Malaysia assets as at 31 December 2017 and held a meeting with the Chief Petroleum Engineer and external specialists to discuss their work and findings. We discussed with the Chief Petroleum Engineer and external specialists whether management had exercised any bias in assumptions used or the outputs produced by the reserves estimation exercise. We have reviewed the reasonableness of the assumptions in the reserves report. We also reconciled internal estimates to third party reserves reports, and obtained an understanding of differences. We performed analytical procedures to identify movements between last year and this year. We discussed significant variances from expectations with the Chief Petroleum Engineer and external specialists to understand the movements. 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, the fair value calculation for Magnus 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 specialists. We did not identify any indication of management bias in the estimation process.

Independent Auditor's Report CONTINUED

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of the carrying value of tangible and intangible assets (including goodwill)		Risk direction: ↔

Impairment of production ('O&G') assets of ($172 million) and goodwill ($nil)

Refer to the Audit Committee Report (pages 60 to 65); Accounting policies (from page 109); Note 10 for Impairment in the Annual Report and Accounts; and Note 11 for Goodwill in the Annual Report and Accounts.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Despite the low oil price environment, there has been a recovery in spot oil prices in the second half of the year continuing into 2018. This creates a potential indicator for reversal of previous impairments. There are other judgemental areas such as reserves, production and cost profiles, which could lead to impairment triggers. 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.	We carried out procedures to understand and walkthrough EnQuest'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 discount rates. We performed the impairment work on North Sea assets from our Aberdeen office (UK) and the impairment assessment for Malaysian assets was led by our London office (UK) with assistance from our Kuala Lumpur office (Malaysia).	There are a number of factors which have an impact on the impairment charge/reversals. The impairment calculations are particularly sensitive to both reserve estimates, future oil prices and discount rates. In our view the reserves, price and discount rate assumptions used by management are within reasonable ranges. Consequently, we believe the net impairment charge is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Complexity of the deferred taxation calculation		Risk direction: ↔

Deferred tax expense $193.7 million (2016: $22.1 million credit); deferred tax assets $398.3 million (2016: $206.7 million); and deferred tax liabilities $62.7 million (2016: $15 million)

Refer to the Audit Committee Report (pages 60 to 65); Accounting policies (from page 109); and Note 7 of the Annual Report and Accounts.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
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'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 tested 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 challenged the recoverability of material deferred tax assets by reconciling the expected future taxable income to the impairment models. We performed an analytical review on the deferred tax balance and discussed any significant movements and any movements not within our expectations. We assessed management's interpretation and application of relevant tax law. For UK registered companies our Tax teams based in Aberdeen (UK) and London (UK) performed the work and for Malaysian registered companies the tax team in Kuala Lumpur (Malaysia) is used.	We conclude that the deferred taxation and taxation balances are fairly stated as at 31 December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Complexity of the acquisition accounting for Magnus/Sullom Voe Terminal ('SVT').		New in 2017

At the date of acquisition, the fair value of the net assets was US$115.4 million. Excess of fair value over consideration of $48.7 million arose on acquisition

Refer to the Audit Committee Report (pages 60 to 65); Accounting policies (from page 109); and Note 29 of the Annual Report and Accounts.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
EnQuest completed the acquisition of 25% of the Magnus field along with interests in related infrastructure assets and operatorship of the SVT on 1 December 2017. EnQuest also has an option to acquire a further 75% of the field. The consideration for this acquisition was by way of a vendor loan from BP which is repayable from the Magnus cash flows and other deferred consideration. Due to the complexity of the SPA and the additional options there is a risk that the fair value calculation could be incomplete and/or the options could be valued inappropriately.	We carried out procedures to understand and walkthrough EnQuest's process for calculating the purchase price allocation ('PPA') in relation to this acquisition. We have audited the PPA and assessed the appropriateness of the inputs to the fair value calculation. The key inputs included oil price assumptions, production profiles, capital and operating expenditure, decommissioning provisions and discount rates. We have audited the key assumptions and ensured that the methodology and application of these are reasonable. In addition to this we engaged our valuation specialists principally to assist us in the audit of discount rates.	The valuation is complex and is impacted by a number of factors. Similar to impairment the calculation is sensitive to reserve estimates, future oil prices and discount rates. In our view the reserves, price and discount rate assumptions used by management are within reasonable ranges. In addition, the future cost, production profiles, and decommissioning cost estimates included in the calculation are appropriate. Consequently, we believe the acquisition has been appropriately recorded.

In the prior year, our auditor's report included a key audit matter in relation to going concern where we made an assessment whether going concern met the definition of a key audit matter, whether the appropriate disclosures had been made and discussed what we reported to the Audit Committee. Since we have concluded there is a material uncertainty in the current year, we have included a section in the auditor's report: 'Material uncertainty related to going concern' to discuss the material uncertainty that may cast significant doubt on the Group's or the parent company's ability to continue as a going concern.

An overview of 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 and changes in the business environment 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 Malaysia and the United Kingdom, which represent the principal business units within the Group.

We performed an audit of the complete financial information of the two full scope components selected as both were selected based on their size or risk characteristics. There were no specific scope components for the current year.

	Full scope	Other procedures
REVENUE	100% (2016: 86%)	0%
EBITDA	100% (2016: 89%)	0%
TOTAL ASSETS	95% (2016: 95%)	5%

Of the remaining components that together represent 0% of the Group's EBITDA, none are individually greater than 1% of the Group's EBITDA. For these components, we performed other procedures, including an overall analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The Malaysian component has been changed from a specific scope to a full scope component due to its increased share of Group EBITDA in 2017.

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 audited by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the UK full scope component (which represents 81% of Group EBITDA), audit procedures were performed directly by the primary audit team. For the other full scope component (Malaysia), 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.

Independent Auditor's Report CONTINUED

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

The primary team (including the Senior Statutory Auditor) interacted regularly with the Malaysia team during various stages of the audit including planning of the audit approach, discussing any issues arising from their work and reviewing key working papers, and we were responsible for the scope and direction of the audit process. The primary team also attended the audit close meeting with EnQuest Malaysia management. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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

Materiality

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

Based on our professional judgement, we determined materiality for the Group to be $6.1 million (2016: $8.9 million), which is 2% (2016: 2%) of EBITDA (as included in the consolidated financial statements). Materiality has decreased by 31% from the prior year given the reduced profitability of the Group.

We believe that EBITDA is the most appropriate basis to use as this is the key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the Group's debt and is the measure most focused on by stakeholders.

We determined materiality for the parent company to be $7.8 million (2016: $8.4 million), which is 1% (2016: 1%) of equity. The materiality is greater for the parent company as compared to the Group due to the different basis used for determining materiality.

During the course of our audit, we reassessed initial materiality and there has been no significant change in final materiality from our original assessment at planning.

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 should be 50% (2016: 50%) of our planning materiality, namely $3.05 million (2016: $4.5 million). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the engagement indicating a higher risk of misstatements.

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 performance materiality allocated to components was $2.78 million for the North Sea (2016: $4.45 million) and $1.24 million for Malaysia (2016: $2 million).

Reporting threshold

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

We identify and capture misstatements above $0.3 million (2016: $0.4 million) which is set at 5% of planning materiality. We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable,** set out on page 61 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting,** set out on pages 60 to 65 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on page 56 to 59 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, set out on page 96, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety and employee matters.
- We understood how EnQuest PLC is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies. We obtained the Code of Business conduct and employee handbook updated as at May 2017 which is provided to all employees and those charged with governance which indicates a culture of honesty and ethical behaviour and with an emphasis on fraud prevention, which may reduce opportunities for fraud to take place. Inquiries were made of those charged with governance in part to corroborate the responses to the inquiries of management.

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

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, location management in all full scope entities; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Board of Directors in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ended 31 December 2010 to 31 December 2017. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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

19 March 2018

Notes:

1 The maintenance and integrity of the EnQuest PLC web site 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 2017

	Notes	2017 Business performance $'000	2017 Remeasurements and exceptional items (note 4) $'000	2017 Reported in year $'000	2016 Business performance $'000	2016 Remeasurements and exceptional items (note 4) $'000	2016 Reported in year $'000
Revenue and other operating income	5(a)	**635,167**	**(7,716)**	**627,451**	849,627	(51,504)	798,123
Cost of sales	5(b)	**(569,506)**	**5,481**	**(564,025)**	(653,518)	(2,848)	(656,366)
Gross profit/(loss)		**65,661**	**(2,235)**	**63,426**	196,109	(54,352)	141,757
Net impairment (charge)/reversal to oil and gas assets	4	**–**	**(171,971)**	**(171,971)**	–	147,871	147,871
(Loss)/gain on disposal of intangible oil and gas assets	4	**–**	**–**	**–**	–	(16,178)	(16,178)
General and administration expenses	5(c)	**(848)**	**–**	**(848)**	(10,890)	–	(10,890)
Other income	5(d)	**6,807**	**50,613**	**57,420**	51,936	31,554	83,490
Other expenses	5(e)	**(24,363)**	**(20,358)**	**(44,721)**	(77)	(894)	(971)
Profit/(loss) from operations before tax and finance income/(costs)		**47,257**	**(143,951)**	**(96,694)**	237,078	108,001	345,079
Finance costs	6	**(149,020)**	**(272)**	**(149,292)**	(122,232)	(7,043)	(129,275)
Finance income	6	**2,213**	**–**	**2,213**	1,440	–	1,440
Profit/(loss) before tax		**(99,550)**	**(144,223)**	**(243,773)**	116,286	100,958	217,244
Income tax	7	**65,996**	**116,947**	**182,943**	5,224	(37,256)	(32,032)
Profit/(loss) for the year attributable to owners of the parent		**(33,554)**	**(27,276)**	**(60,830)**	121,510	63,702	185,212
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Fair value gains/(losses) on cash flow hedges				**–**			(29,048)
Transfers to income statement of cash flow hedges				**(5)**			(239,565)
Transfers to balance sheet of cash flow hedges				**–**			278
Deferred tax on cash flow hedges	7			**–**			134,177
Other comprehensive income for the year, net of tax				**(5)**			(134,158)
Total comprehensive income for the year, attributable to owners of the parent				**(60,835)**			51,054
Earnings per share	8	**$**		**$**	$		$
Basic		**(0.030)**		**(0.054)**	0.149		0.227
Diluted		**(0.030)**		**(0.054)**	0.145		0.221

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

Group Balance Sheet

At 31 December 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**3,848,622**	2,963,446
Goodwill	11	**189,317**	189,317
Intangible oil and gas assets	12	**52,103**	50,332
Investments	13	**152**	171
Deferred tax assets	7	**398,263**	206,742
Other financial assets	20	**8,191**	23,429
		4,496,648	3,433,437
Current assets			
Inventories	14	**78,045**	74,985
Trade and other receivables	15	**227,754**	202,666
Current tax receivable		**1,159**	925
Cash and cash equivalents	16	**173,128**	174,634
Other financial assets	20	**61,737**	39,342
		541,823	492,552
TOTAL ASSETS		**5,038,471**	3,925,989
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	17	**210,402**	208,639
Merger reserve		**662,855**	662,855
Cash flow hedge reserve		**36**	41
Share-based payment reserve		**(5,516)**	(6,602)
Retained earnings		**(106,911)**	(46,081)
TOTAL EQUITY		**760,866**	818,852
Non-current liabilities			
Borrowings	19	**888,993**	1,052,075
Bonds	19	**934,351**	855,739
Obligations under finance leases	24	**679,924**	–
Provisions	22	**705,999**	584,266
Trade and other payables	23	**78,777**	42,587
Other financial liabilities	20	**7,121**	19,767
Deferred tax liabilities	7	**62,685**	15,027
		3,357,850	2,569,461
Current liabilities			
Borrowings	19	**330,012**	49,601
Obligations under finance leases	24	**118,009**	–
Provisions	22	**43,215**	30,041
Trade and other payables	23	**367,312**	410,261
Other financial liabilities	20	**61,207**	44,274
Current tax payable		**–**	3,499
		919,755	537,676
TOTAL LIABILITIES		**4,277,605**	3,107,137
TOTAL EQUITY AND LIABILITIES		**5,038,471**	3,925,989

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

The financial statements were approved by the Board of Directors on 19 March 2018 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital and share premium $'000	Merger reserve $'000	Cash flow hedge reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2016	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)
Balance at 31 December 2016	**208,639**	**662,855**	**41**	**(6,602)**	**(46,081)**	**818,852**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**(60,830)**	**(60,830)**
Other comprehensive income	**–**	**–**	**(5)**	**–**	**–**	**(5)**
Total comprehensive income for the year	**–**	**–**	**(5)**	**–**	**(60,830)**	**(60,835)**
Share-based payment	**–**	**–**	**–**	**2,849**	**–**	**2,849**
Shares issued on behalf of Employee Benefit Trust	**1,763**	**–**	**–**	**(1,763)**	**–**	**–**
Balance at 31 December 2017	**210,402**	**662,855**	**36**	**(5,516)**	**(106,911)**	**760,866**

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

Group Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	30	**327,034**	408,247
Cash (paid)/received on sale/(purchase) of financial instruments		**(1,185)**	(14,541)
Decommissioning spend	22	**(10,605)**	(6,355)
Income taxes paid		**(13,463)**	(7,890)
Net cash flows from/(used) operating activities		**301,781**	379,461
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(358,420)**	(601,696)
Purchase of intangible oil and gas assets		**(9,171)**	(8,928)
Proceeds from disposal of intangible oil and gas assets		**–**	1,466
Proceeds from disposal of Ascent loan notes		**3,561**	–
Interest received		**340**	422
Net cash flows (used)/from in investing activities		**(363,690)**	(608,736)
FINANCING ACTIVITIES			
Proceeds from bank facilities		**162,970**	174,997
Repayment of bank facilities		**(50,969)**	(10,150)
Gross proceeds from issue of shares		**–**	101,628
Shares purchased by Employee Benefit Trust		**–**	(3,059)
Share issue and debt restructuring costs paid		**(1,356)**	(21,152)
Repayment of obligations under finance leases		**–**	(35)
Interest paid		**(46,052)**	(83,207)
Other finance costs paid		**(6,286)**	(9,842)
Net cash flows from/(used) financing activities		**58,307**	149,180
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,602)**	(80,095)
Net foreign exchange on cash and cash equivalents		**5,210**	(9,385)
Cash and cash equivalents at 1 January		**168,060**	257,540
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**169,668**	168,060
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**169,668**	168,060
Restricted cash	16	**3,460**	6,574
Cash and cash equivalents per balance sheet		**173,128**	174,634

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 2017

1. Corporate information

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

The principal activities of the Company and its subsidiaries (together the 'Group') is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner.

The Group's financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 19 March 2018.

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

2. Summary of significant accounting policies

New standards and interpretations

The Group has adopted and applied the following standards that are relevant to its operations for the first time for the annual reporting period commencing 1 January 2017:

- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs (2014 – 2016 Cycle): IFRS 12 Disclosure of interests in other entities; and
- Disclosure Initiative Amendments – IAS 7 Statement of Cash Flows.

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Group's financial statements, although an amendment to IAS 7 Statement of Cash Flows has resulted in a reconciliation of liabilities disclosed for the first time in note 30.

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 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 under the 'expected credit loss' ('ECL') model and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Group has performed an impact assessment for the application of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. The Group continues to assess its accounting processes, controls and policies on an on-going basis.

Classification and measurement

The Group expects that all financial assets will continue to be measured at amortised cost or fair value and will be measured on the same basis as is currently adopted under IAS 39.

The Group has not designated any financial liabilities at fair value through profit or loss ('FVTPL') and the assessment did not indicate any material impact regarding the classification of financial liabilities. The Group does not currently designate any hedge relationships for hedge accounting.

Impairment

The Group's receivables have a good credit rating, hence the expected credit losses are low (see note 15). There has been no noted change in the credit risk of receivables in the year, therefore the Group does not believe that the new ECL impairment methodology will have a material impact on the valuation of financial assets.

Non-current assets are held with reputable businesses with whom the Group has good working relationships. The scheduled repayment of cash flows have been and continue to be received in line with expectations. There has been no noted change in the credit risk of receivables in the year, therefore the Group does not believe that the new ECL impairment methodology will have a material impact on the valuation of financial assets.

Cash is held with bank and financial institution counterparties, which are rated with an A-/A3 credit rating or better (see note 16). The Group considers that the available cash balances have low credit risk based on the external credit rating of the counterparties.

Modification of debt

In July 2017 the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

During the 2016 refinancing, the modification of the Bonds was not considered to be significant. As a result, the change in contractual cash flows on the Bonds was amortised over the new life of the bonds, rather than taken straight to profit or loss (see note 19). Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. On the implementation of IFRS 9 on 1 January 2018, an adjustment will be taken through opening reserves and through the value of both bonds, High Yield Bond and Retail Bond of $34.0 million ($9.2 million and $24.8 million respectively).

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

2. Summary of significant accounting policies continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a single comprehensive model that will apply to revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and related interpretations when it becomes effective, for annual periods beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The five step model recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Extensive new disclosures are required by IFRS 15.

During 2017, the Group has performed an impact assessment for the application of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 15. The Group continues to assess its accounting processes, controls and policies on an on-going basis. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The Group recognises revenue from the following major sources:
- Sale of crude oil, gas and condensate;
- Tariff revenue for the use of Group infrastructure;
- Production imbalances.

Interest income and dividend income from debt and equity investments were covered by IAS 18. These are now within the scope of IFRS 9.

Sale of crude oil, gas and condensate

The Directors have assessed the sale of crude oil, gas or condensate and determined that these represent a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue will accordingly be recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. This is in line with the current recognition of revenue under IAS 18. Variable revenue conditions can arise on either party based on the failure to provide commitments detailed within the contract. These variations arise as an event occurs and therefore the transaction price is known at the timing of the performance obligations with no judgement required. Revenue recognition is therefore consistent with current practice.

A Production Sharing Contract ('PSC') is in place in Malaysia with Petronas, the custodian for Malaysia's national oil and gas resources. The production is shared in line with the risks and benefits that result from the activity of the PSC and therefore this is a collaborative arrangement. Revenue is recognised on the sale of the crude oil, as per the analysis of sale of crude oil above. This is in line with the current recognition of revenue under IAS 18.

Tariff revenue for the use of Group infrastructure

The Directors have assessed the revenue arising from tariffs, which are charged to customers for the use of infrastructure owned by the Group in the North Sea. There is one contract per customer which is for a period of 12 months of less and is based on one performance obligation for the use of Group assets. The use of the assets is not separable as they are all dependent on one another in order to fulfil the contract and no one item of infrastructure can be individually identified. Revenue will accordingly be recognised over the performance of the contract as services are provided for the use of the infrastructure on a throughput basis. Revenue recognition is therefore consistent with current practice under IAS 18.

Production imbalances

Production imbalances arise on fields as oil is lifted per each joint venture party, resulting in a variance in the volume of oil lifted versus the entitlement per owner per their working interest. The change in production imbalances is currently taken through cost of sales (see note 5(b)) at fair value at the date of lifting. All Group fields are operated through a Joint Venture Agreement ('JVA') through which production imbalances are settled. These transactions are settled by the JVA through lifting schedules and are not settled in cash, with the exception of a misbalance at the cessation of contract.

These are collaborative agreements through the JVA and non-monetary exchanges, and therefore do not meet the definition of a customer under IFRS 15. Production imbalances will continue to be recognised through cost of sales, as per the current accounting treatment, with no change on the application of IFRS 15.

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 lessors and lessees. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of $110 million (see note 24). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of these leases, unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete the review.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. Contracts which have not been considered or identified as a lease will continue to be accounted for in line with their historical treatment.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases), the Directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

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 2017 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 2017.

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 United States Dollars and all values in the Group financial information are rounded to the nearest thousand ($'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.

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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the consent of the relevant parties sharing control.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation – the Group's share of the production, assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

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.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as a financial liability are remeasured through profit or loss. 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.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

2. Summary of significant accounting policies continued

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill

Goodwill arising on 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.

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.

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 ('CGU') 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 CGU is less than the carrying amount of the CGU and related goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. 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 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 $70/bbl inflated at 2.0% per annum from 2022; discount rates derived from the Group's post-tax weighted average cost of capital of 10.0% (2016: 10.0%); 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 (see 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 a forward curve followed by an oil price assumption representing management's view of the long-term oil price.

Decommissioning provision

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

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

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2.0% (2016: 2.0%) and an annual discount rate of 2.0% (2016: 2.3%).

Debt restructuring
The Group undertook debt restructuring during 2016 resulting in a substantial modification of the terms of its Revolving Credit Facility ('RCF') (see note 19). Accordingly, extinguishment accounting was 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 were expensed to the income statement as exceptional finance costs (see note 4).

Going concern
The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that, notwithstanding the material uncertainty as provided in the 'Going Concern' section of the Financial Review, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period.

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 the Financial Review for further details.

Taxation
The Group's operations are subject to a number of specific tax rules which apply to exploration, development 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 likelihood of future taxable profits and the amount of deferred tax that can be recognised.

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

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

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 by management. 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	5 years
Fixtures and fittings	10 years
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.

2. Summary of significant accounting policies continued

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. In the event of a partial farm-out, the Group 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.

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.

2. Summary of significant accounting policies continued

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 option's 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.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other financial liabilities at amortised cost. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include loans and borrowings, trade and other payables, quoted and unquoted financial instruments and derivative financial instruments.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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.

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 10.0% 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'. Where the modification is substantially different, it accounts for this as an extinguishment of the original liability even though a quantitative analysis may indicate a less than 10.0% cash flow change.

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. 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. Movements in under or over-lifted positions are accounted for through cost of sales.

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.

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 shares held within the Employee Benefit Trust.

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; 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.

2. Summary of significant accounting policies continued

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.

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.

Lease charter payment credits, arising from the non-performance of the leased asset, are recognised as an operating expense in the income statement for the period to which they relate.

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. Unrealised mark to market changes in the remeasurement of derivative contracts are initially included in exceptional items within profit or loss. When the derivative reaches maturity, the gain or loss is realised and recycled to be included within Business performance.

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 better assess 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 previously;
- Impairments and write offs/write downs are deemed to be exceptional in nature. This includes impairments of tangible and intangible assets, and write offs/write downs of unsuccessful exploration. Other non-routine write offs/write downs, where deemed material, are also included in this category; and
- 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. Fair value is measured in reference to the scheme rules, as detailed in note 18. 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 previously recognised for the award at that date is recognised in the statement of comprehensive income.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

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: the North Sea and Malaysia. Operations are managed by location and all information is presented per geographical segment. 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 2017 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue:						
External customers	**535,850**	**119,892**	**–**	**655,742**	**(28,291)**	**627,451**
Total Group revenue	**535,850**	**119,892**	**–**	**655,742**	**(28,291)**	**627,451**
Income/(expenses):						
Depreciation and depletion	**(201,684)**	**(27,514)**	**–**	**(229,198)**	**–**	**(229,198)**
Net impairment reversal/(charge) to oil and gas assets	**(187,716)**	**15,745**	**–**	**(171,971)**	**–**	**(171,971)**
Impairment reversal of investments	**(19)**	**–**	**–**	**(19)**	**–**	**(19)**
Exploration write offs and impairments	**193**	**–**	**–**	**193**	**–**	**193**
Segment profit/(loss)	**(135,187)**	**39,062**	**22,844**	**(73,281)**	**(23,413)**	**(96,694)**
Other disclosures:						
Capital expenditure	**322,398**	**2,299**	**–**	**324,697**	**–**	**324,697**

Year ended 31 December 2016 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations	Consolidated
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)
Net impairment reversal/(charge) to oil and gas assets	167,838	(19,967)	–	147,871	–	147,871
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)
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

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

Reconciliation of (loss)/profit:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Segment profit/(loss)	**(73,281)**	209,261
Finance income	**2,213**	1,440
Finance expense	**(149,292)**	(129,275)
Gains and losses on oil and foreign exchange derivatives	**(23,413)**	135,818
Profit/(loss) before tax	**(243,773)**	217,244

Revenue from two customers (2016: three customers) each exceed 10% of the Group's consolidated revenue arising from sales of crude oil and amounted respectively to $206.1 million in the North Sea operating segment and $105.2 million in the Malaysia operating segment (2016: $321.0 million and $85.7 million arising in the North Sea operating segment and $89.9 million in the 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 $119.1 million located in Malaysia (2016: $128.1 million).

4. Remeasurements and exceptional items

Year ended 31 December 2017 $'000	Fair value remeasurement (i)	Impairments and write offs (ii)	Other (iii)	Total
Revenue and other operating income	(7,716)	–	–	(7,716)
Cost of sales	9,726	(2,682)	(1,563)	5,481
Net impairment (charge)/reversal on oil and gas assets	–	(171,971)	–	(171,971)
Other income	1,685	193	48,735	50,613
Other expenses	–	(19)	(20,339)	(20,358)
Finance costs	–	–	(272)	(272)
	3,695	(174,479)	26,561	(144,223)
Tax on items above	(1,473)	65,730	5,482	69,739
Other tax exceptional items(iv)	–	–	47,208	47,208
	2,222	(108,749)	79,251	(27,276)

(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. In addition a $1.3 million gain in respect to the disposal of Ascent Resources loan notes was recognised in 2017. 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 includes an impairment of tangible oil and gas assets totalling $172.0 million (2016: impairment reversal of $147.9 million), together with a charge of $2.7 million in relation to inventory write downs, a $0.02 million impairment on the investment in Ascent Resources (2016: $0.05 million impairment) and a $0.2 million write back of previously impaired exploration costs (2016: $0.8 million impairment/write off). Further details on the tangible impairment are provided in note 10.

(iii) Other mainly includes a gain in relation to the excess of fair value over cost arising on the acquisition of the Magnus oil field and other interests comprising of the $22.3 million purchase option, $16.1 million Thistle decommissioning option and $10.3 million 25% acquisition value, totalling a gain of $48.7 million (see note 29). Other items include a charge of $10.3 million in relation to the 2014 PM8 cost recovery settlement agreement, a charge of $6.4 million for the cancellation of contracts and a charge of $2.8 million in relation to the provision on restricted cash (see note 16). Other income also includes other 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 better assess trends in financial performance.

(iv) Other tax exceptional items include $13.2 million for the recognition of previously de-recognised tax losses, together with $34.0 million for the impact on deferred tax of a revision to the balance of non-qualifying expenditure.

Year ended 31 December 2016 $'000	Fair value remeasurement	Impairments and write offs	Debt restructuring (i)	Surplus lease provision (ii)	Loss on disposal (iii)	Other (iv)	Total
Revenue and other operating income	(51,504)	–	–	–	–	–	(51,504)
Cost of sales	(1,584)	–	–	–	–	(1,264)	(2,848)
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	48	–	22,948	–	5,721	31,554
Other expenses	–	(776)	–	–	–	(118)	(894)
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(v)	–	–	–	–	–	(29,483)	(29,483)
Increase in the carrying amount of deferred tax assets(vi)	–	–	–	–	–	48,817	48,817
	(10,382)	80,106	(27,792)	13,769	(16,178)	24,179	63,702

(i) 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. In 2016, this resulted in $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 $11.1 million and a $12.0 million restructuring fee, payable to the credit facility lenders by March 2018, were expensed. In 2016, these comprised an aggregate of $38.1 million of debt restructuring costs.

(ii) The Group had an agreement to hire the Stena Spey drilling vessel. 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 $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 $22.9 million was reversed in full.

(iii) During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for cash proceeds of $1.5 million, resulting in a loss on disposal of $16.2 million (see note 12).

(iv) In 2016, Other primarily included 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 and a $1.3 million depreciation of the fair value uplift.

(v) The 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. The 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 $29.5 million.

(vi) At the year ended 31 December 2016, the recovery of deferred tax assets was reviewed which has led to a recognition of previously impaired tax losses totalling $48.8 million. This write back reflects the increase in value of the Group's assets following a partial recovery of oil prices.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

5. Revenue and expenses

(a) Revenue and other operating income

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Revenue from crude oil sales	636,966	577,822
Revenue from gas and condensate sales	2,822	3,628
Realised (losses)/gains on oil derivative contracts (see note 20(e))	(20,575)	255,803
Tariff revenue	7,029	4,915
Other operating revenue	1,851	142
Rental income	7,074	7,317
Business performance revenue	635,167	849,627
Unrealised (losses)/gains on oil derivative contracts(i) (see note 20(e))	(7,716)	(51,504)
Total revenue and other operating income	627,451	798,123

(i) Unrealised gains and losses on oil derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional items in the income statement (see note 4).

(b) Cost of sales

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Cost of operations	299,721	285,040
Tariff and transportation expenses	62,208	58,139
Realised loss/(gain) on foreign exchange derivative contracts(i) (see note 20(e))	4,848	66,898
Change in lifting position	(20,643)	4,656
Crude oil inventory movement	237	(1,830)
Depletion of oil and gas assets (see note 10)	223,135	240,615
Business performance cost of sales	569,506	653,518
Depletion of oil and gas assets (see note 10)	1,563	1,264
Write down of inventory	2,682	–
Unrealised (gains)/losses on foreign exchange derivative contracts(ii) (see note 20(e))	(9,726)	1,584
Total cost of sales	564,025	656,366

(i) The realised loss on foreign exchange derivative contracts was $4.8 million for contracts related to capital expenditure (2016: loss of $19.6 million related to operating expenditure and losses of $47.3 million related to capital expenditure).
(ii) Unrealised gains and losses 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 (see note 4).

(c) General and administration expenses

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Staff costs (see note 5(f))	79,138	86,773
Depreciation (see note 10)	4,500	3,930
Other general and administration costs	20,077	32,355
Recharge of costs to operations and joint venture partners	(102,867)	(112,168)
	848	10,890

(d) Other income

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Net foreign exchange gains	–	51,867
Prior year general and administrative expenses recovery	5,101	–
Other income	1,706	69
Business performance other income	6,807	51,936
Excess of fair value over consideration: Purchase option (see note 29)	22,300	–
Excess of fair value over consideration: Thistle decommissioning option (see note 29)	16,120	–
Excess of fair value over consideration: 25% acquisition value (see note 29)	10,314	–
Release of surplus lease provision	–	22,948
Gain on disposal of financial assets	1,263	–
Change in provision for contingent consideration	423	4,056
Fair value movements on financial assets	–	2,151
Decommissioning provision reduction	–	1,627
Acquisition accounting adjustment	–	694
Other exceptional income	193	78
Total other income	57,420	83,490

(e) Other expenses

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Net foreign exchange losses	23,910	–
Exploration and evaluation expenses: Pre-licence costs expensed	43	68
Other	410	9
Business performance other expenses	24,363	77
2014 PM8 cost recovery settlement agreement	10,329	–
Early termination of contracts	6,435	–
Write down of receivable	2,808	118
Exploration and evaluation expenses: Written off and impaired	–	776
Other expenses	786	–
Total other expenses	44,721	971

(f) Staff costs

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Wages and salaries	48,773	47,089
Social security costs	4,686	4,458
Defined contribution pension costs	3,057	3,522
Expense of share-based payments (see note 18)	2,849	8,452
Other staff costs	2,486	2,709
Total employee costs	61,851	66,230
Contractor costs	17,287	20,543
Total staff costs	79,138	86,773

The average number of persons employed by the Group during the year was 506 (2016: 477).

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

5. Revenue and expenses continued

(g) Auditor's remuneration

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

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**584**	515
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**114**	74
Audit related assurance services (interim review)	**181**	71
Tax advisory services	**5**	58
Corporate finance services[(i)]	**–**	312
	300	515
	884	1,030

(i) Relates to the reporting accountant's report on the unaudited pro forma financial information in the Company's prospectus for the placing and open offer (see note 17).

6. Finance costs/income

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Finance costs:		
Loan interest payable	**74,434**	50,789
Bond interest payable	**63,463**	59,689
Unwinding of discount on decommissioning provisions (see note 22)	**11,471**	10,724
Unwinding of discount on other provisions (see note 22)	**1,838**	3,173
Unwinding of discount on financial liabilities (see note 20(f))	**163**	279
Fair value (gain)/loss on financial instruments at FVTPL (see note 20(e))	**(15)**	36,516
Finance charges payable under finance leases	**31,273**	–
Amortisation of finance fees on loans and bonds	**2,760**	5,910
Other financial expenses	**5,902**	10,501
	191,289	177,581
Less: amounts capitalised to the cost of qualifying assets	**(42,269)**	(55,349)
Business performance finance expenses	**149,020**	122,232
Fair value loss on financial instruments at FVTPL (see note 20(e))	**–**	(31,072)
Debt restructuring costs (see note 4)	**–**	38,115
Unwinding of discounts on other provisions	**272**	–
	149,292	129,275
Finance income:		
Bank interest receivable	**381**	337
Unwinding of discount on financial asset (see note 20(f))	**1,832**	1,017
Other financial income	**–**	86
	2,213	1,440

7. Income tax

(a) Income tax

The major components of income tax (credit)/expense are as follows:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Current income tax		
Current income tax charge	**214**	–
Adjustments in respect of current income tax of previous years	**(932)**	–
Current overseas income tax		
Current income tax charge	**11,191**	11,269
Adjustments in respect of current income tax of previous years	**263**	(1,294)
Total current income tax	**10,736**	9,975
Deferred income tax		
Relating to origination and reversal of temporary differences	**(202,173)**	(4,756)
Adjustments in respect of changes in tax rates	**–**	29,483
Adjustments in respect of deferred income tax of previous years	**14,469**	3,021
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(5,840)**	(7,511)
Adjustments in respect of deferred income tax of previous years	**(135)**	1,820
Total deferred income tax	**(193,679)**	22,057
Income tax (credit)/expense reported in profit or loss	**(182,943)**	32,032

(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 2017 $'000	Year ended 31 December 2016 $'000
(Loss)/profit before tax	**(243,773)**	217,244
Statutory rate of corporation tax in the UK of 40% (2016: 40%)	**(97,509)**	86,898
Supplementary corporation tax non-deductible expenditure	**21,170**	(11,390)
Non-deductible expenditure(i)	**(7,673)**	32,631
Non-deductible loss on disposals	**–**	4
Petroleum revenue tax (net of income tax benefit)(ii)	**3,703**	(3,702)
North Sea tax reliefs	**(93,234)**	(102,149)
Tax in respect of non-ring fence trade	**(9,085)**	27,653
Tax losses not recognised(iii)	**(11,230)**	(39,198)
Deferred tax rate changes	**–**	29,483
Adjustments in respect of prior years	**13,665**	3,547
Overseas tax rate differences	**(4,163)**	4,362
Share-based payments	**1,475**	3,154
Other differences	**(62)**	739
At the effective income tax rate of 75% (2016: 15%)	**(182,943)**	32,032

(i) Movement is primarily the impact of the excess of fair value over consideration.
(ii) Movement is primarily the derecognition of Alba decommissioning asset.
(iii) Current year tax credit is the re-recognition of non-ring fence losses de-recognised in 2016.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Deferred tax liability				
Accelerated capital allowances	**1,163,562**	1,085,456	**28,290**	73,310
Other temporary differences	**–**	–	**–**	(36,850)
	1,163,562	1,085,456		
Deferred tax asset				
Losses	**(1,228,034)**	(1,060,036)	**(167,998)**	(59,477)
Decommissioning liability	**(254,008)**	(185,418)	**(68,590)**	48,891
Other temporary differences	**(17,098)**	(31,717)	**14,619**	(3,817)
	(1,499,140)	(1,277,171)		
Deferred tax expense			**(193,679)**	22,057
Net deferred tax (assets)/liabilities	**(335,578)**	(191,715)		

	2017 $'000	2016 $'000
Reflected in the balance sheet as follows:		
Deferred tax assets	**(398,263)**	(206,742)
Deferred tax liabilities	**62,685**	15,027
Net deferred tax (assets)/liabilities	**(335,578)**	(191,715)

Reconciliation of net deferred tax assets/(liabilities)

	2017 $'000	2016 $'000
At 1 January	**191,715**	79,327
Tax income/(expense) during the period recognised in profit or loss	**193,679**	(22,057)
Tax income/(expense) during the period recognised in other comprehensive income	**–**	134,177
Deferred taxes acquired (see note 29)	**(49,816)**	268
At 31 December	**335,578**	191,715

(d) Tax losses

The Group's deferred tax assets at 31 December 2017 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 2017 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 2018 to 2021 followed by $70/bbl inflated at 2.0% per annum from 2022. The results of the impairment model demonstrated that it was appropriate to recognise a deferred tax asset on $24.2 million (2016: $214.3 million recognised deferred tax asset) of the Group's UK ring fence corporate tax losses at 31 December 2017 based on expected future profitability. The recognised loss amount results in a deferred tax credit of $9.7 million (2016: $85.7 million credit) 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 $290.2 million (2016: $285.8 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 has unused overseas tax losses in Canada of approximately CAD$13.5 million (2016: 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 2018, and which arose following the change in control of the Stratic group in 2010.

The Group has unused Malaysian income tax losses of $5.2 million (2016: $3.1 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.

(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 $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 $28.9 million.

Finance Act 2017 enacted legislation in relation to the restriction of corporate interest deductions from 1 April 2017 and the restriction of relief for mainstream corporate tax losses with effect from 1 April 2017. While these changes do not impact North Sea ring fence activities directly, they have an impact on the current year Group tax charge where North Sea ring fence losses are offset against mainstream corporate tax profits which would otherwise be exposed due to the operation of these new rules. The impact of these changes in the current year was a tax charge of $15.1 million.

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 Year ended 31 December		Weighted average number of Ordinary shares Year ended 31 December		Earnings per share Year ended 31 December	
	2017 $'000	2016 $'000	**2017 million**	2016 million	**2017 $**	2016 $
Basic	**(60,830)**	185,212	**1,128.1**	815.3	**(0.054)**	0.227
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**53.0**	24.6	**–**	(0.006)
Diluted	**(60,830)**	185,212	**1,181.1**	839.9	**(0.054)**	0.221
Basic (excluding exceptional items)	**(33,554)**	121,510	**1,128.1**	815.3	**(0.030)**	0.149
Diluted (excluding exceptional items)	**(33,554)**	121,510	**1,181.1**	839.9	**(0.030)**	0.145

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2017 (2016: none). At 31 December 2017, there are no proposed dividends (2016: none).

10. Property, plant and equipment

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Total $'000
Cost:			
At 1 January 2016	6,165,488	51,865	6,217,353
Additions	629,654	2,857	632,511
Acquired (see 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 (see note 12)	276	–	276
At 31 December 2016	**6,787,343**	**54,722**	**6,842,065**
Additions	**320,627**	**2,994**	**323,621**
Initial recognition of finance lease asset (see note 24)	**771,975**	**–**	**771,975**
Acquired (see note 29)	**124,542**	**–**	**124,542**
Change in decommissioning provision (see note 22)	**143,992**	**–**	**143,992**
Change in cost recovery provision (see note 22)	**(77,785)**	**–**	**(77,785)**
At 31 December 2017	**8,070,694**	**57,716**	**8,128,410**
Accumulated depletion and impairment:			
At 1 January 2016	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**
Charge for the year	**224,698**	**4,500**	**229,198**
Impairment charge for the year	**171,971**	**–**	**171,971**
At 31 December 2017	**4,242,697**	**37,091**	**4,279,788**
Net carrying amount:			
At 31 December 2017	**3,827,997**	**20,625**	**3,848,622**
At 31 December 2016	2,941,315	22,131	2,963,446
At 1 January 2016	2,413,468	23,204	2,436,672

10. Property, plant and equipment continued

During 2017 the Group acquired a 25% interest in Magnus oil field and other interests (see note 29), resulting in an acquisition of assets at a value of $124.5 million allocated to property, plant and equipment.

During the year ended 31 December 2017, the Group's lease from Armada Kraken PTE Limited ('BUMI') of the FPSO for the Kraken field commenced. The lease has been assessed as a finance lease, and a $772.0 million lease liability and lease asset were recognised in June 2017. The liability was calculated based on the present value of the minimum lease payments at inception of the lease (see note 24).

During the year ended 31 December 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 $40.7 million allocated to property, plant and equipment (see note 29).

During the year ended 31 December 2016, a liability of $26.6 million was recognised for the carry payable for the Kraken field following the finalisation of a reserve determination (see note 22). The amount payable was dependent upon the dated Brent forward curve at the date of the reserve determination. Change in carry liabilities also includes a $0.2 million decrease in the liability (see note 20(f)) for Malaysian assets (2016: decrease of $0.5 million).

Impairments to the Group's producing oil and gas assets and reversals of impairments are set out in the table below:

	Impairment (charge)/reversal		Recoverable amount[(iv)]	
	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000	**31 December 2017 $'000**	31 December 2016 $'000
Central North Sea[(i)]	**(93,288)**	(184,437)	**16,873**	296,989
Northern North Sea[(ii)]	**(94,428)**	352,275	**284,858**	848,628
Malaysia[(iii)]	**15,745**	(19,967)	**48,301**	39,748
Net impairment reversal/(charge)	**(171,971)**	147,871		

(i) Amounts disclosed for Central North Sea include Alma/Galia and Alba. The impairment of Alma/Galia is primarily driven by performance issues relating to Electric Submersible Pumps and underlying natural declines in fields.
(ii) Northern North Sea includes Heather/Broom, Thistle/Deveron and the Dons fields. The impairments are attributable primarily to underlying natural declines in fields.
(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 (see 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). 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 2017 includes $71.1 million (2016: $1,536.6 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 2017 was $42.3 million (2016: $55.3 million) and relates to the Kraken development project (2016: Kraken and Scolty/Crathes development projects). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 7.0% (2016: 6.2%).

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2017 was $756.3 million (2016: $nil) of oil and gas assets.

11. Goodwill

A summary of goodwill is presented below:

	2017 $'000	2016 $'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 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 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 10.0% (2016: 10.0%). 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 curve for the first three years and thereafter at $70/bbl from 2021.

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.

Operating expenditure, 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 10.0% (2016: 10.0%). Management considers this to be the best estimate of a market participant's discount rate.

Sensitivity to changes in assumptions
The Group's recoverable value of assets 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 7% (2016: 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 16% from the prices outlined above (2016: 13%). The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant.

12. Intangible oil and gas assets

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 1 January 2016	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 (see note 10)	(276)	–	(276)
Impairment charge for the year	–	(318)	(318)
At 31 December 2016	**229,524**	**(179,192)**	**50,332**
Additions	**1,076**	**–**	**1,076**
Write off of relinquished licences previously impaired	**(3,076)**	**3,076**	**–**
Unsuccessful exploration expenditure previously written off	**–**	**159**	**159**
Change in decommissioning provision (see note 22)	**502**	**–**	**502**
Impairment charge for the year	**–**	**34**	**34**
At 31 December 2017	**228,026**	**(175,923)**	**52,103**

During the year ended 31 December 2017, the Group continued to develop the Kraken field resulting in the additions to intangibles. The Group also concluded on the unsuccessful exploration costs resulting in a write off of $3.1 million.

During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for $1.5 million, realising a loss on disposal of $16.2 million (see note 4). The additions in 2016 and the related change in decommissioning provision primarily related to the Eagle well which was drilled during 2016.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

13. Investments

	$'000
Cost:	
At 1 January 2016, 31 December 2016 and 31 December 2017	19,231
Provision for impairment:	
At 1 January 2016	(19,108)
Impairment reversal/(charge) for the year	48
At 31 December 2016	**(19,060)**
Impairment (charge)/reversal for the year	**(19)**
At 31 December 2017	**(19,079)**
Net carrying amount:	
At 31 December 2017	**152**
At 31 December 2016	171
At 1 January 2016	123

The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in a non-cash impairment charge of $0.02 million in the year to 31 December 2017 (2016: impairment reversal of $0.05 million).

14. Inventories

	2017 $'000	2016 $'000
Crude oil	**12,422**	13,199
Well supplies	**65,623**	61,786
	78,045	74,985

During 2017, inventories of $2.9 million (2016: $2.0 million) were recognised within cost of sales in the statement of comprehensive income. Included within this balance is $2.7 million as a result of the write down of inventories to net realisable value (2016: $2.0 million). The write downs are included in cost of sales.

15. Trade and other receivables

	2017 $'000	2016 $'000
Current		
Trade receivables	**80,743**	44,363
Joint venture receivables	**87,037**	91,220
Under-lift position	**32,299**	11,886
VAT receivable	**11,739**	9,098
Other receivables	**1,844**	17,971
	213,662	174,538
Prepayments and accrued income	**14,092**	28,128
	227,754	202,666

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 2017, no impairment provision for trade receivables was necessary (2016: nil).

Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners and were not impaired. Under-lift is valued at market prices prevailing at the balance sheet date. As at 31 December 2017 and 31 December 2016, 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 2017 is restricted cash of $3.5 million (2016: $6.6 million). $2.8 million of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2016: $6.0 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

Cash and cash equivalents also include an amount of $3.9 million (2016: $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.

At 31 December 2017, $7.0 million was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

17. Share capital and premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2017	1,159,398,871	83,342	125,297	208,639
Issuance of equity shares	26,685,433	1,763	–	1,763
At 31 December 2017	**1,186,084,304**	**85,105**	**125,297**	**210,402**

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 $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. On 21 November 2016, 10,739,486 shares were acquired by the Employee Benefit Trust pursuant to the open offer.

At 31 December 2017, there were 56,023,671 shares held by the Employee Benefit Trust (2016: 33,563,282). On 18 October 2017, 26,685,433 shares were issued to the Employee Benefit Trust with the remainder of the movement in the year 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 share-based payment expense recognised for each scheme was as follows:

	2017 $'000	2016 $'000
Deferred Bonus Share Plan	**1,069**	1,274
Restricted Share Plan	**1,024**	920
Performance Share Plan	**(68)**	4,378
Sharesave Plan	**230**	93
Executive Director bonus awards	**594**	1,787
	2,849	8,452

The fair value of awards is calculated at the 'market value', being the average middle market quotation of a share for the three immediately preceding dealing days as derived from the Daily Official List of the London Stock Exchange, provided such dealing days do not fall within any period when dealings in shares are prohibited because of any dealing restriction. The fair values of awards granted to employees during the year are based on the 'market value' on the date of grant, or date of invitation in respect to the Sharesave Plan.

Deferred Bonus Share Plan ('DBSP')

Eligible employees are invited to participate in the DBSP 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 the defined market value on the date of grant, are set out below:

	2017	2016
Weighted average fair value per share	**37p**	32p

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

	2017 Number	2016 Number
Outstanding at 1 January	**2,508,026**	2,554,269
Granted during the year(i)	**1,357,040**	1,256,836
Exercised during the year	**(1,214,427)**	(1,199,434)
Forfeited during the year	**(18,842)**	(103,645)
Outstanding at 31 December	**2,631,797**	2,508,026
Exercisable at 31 December	**–**	–

(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 $0.1 million is being expensed over the remaining vesting period of the original awards to which they relate.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

18. Share-based payment plans continued

The weighted average contractual life for the share awards outstanding as at 31 December 2017 was 0.9 years (2016: 1.0 years).

Restricted Share Plan ('RSP')

Under the RSP scheme, employees are granted shares in EnQuest over a discretionary vesting period at the discretion 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 the defined market value on the date of grant, are set out below:

	2017	2016
Weighted average fair value per share	**33p**	32p

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

	2017 Number	2016 Number
Outstanding at 1 January	**12,564,319**	5,815,692
Granted during the year(i)	**587,216**	8,526,792
Exercised during the year	**(893,465)**	(530,109)
Forfeited during the year	**(77,299)**	(1,248,056)
Outstanding at 31 December	**12,180,771**	12,564,319
Exercisable at 31 December	**3,451,209**	3,369,261

(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 $0.4 million is being 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 2017 was 4.8 years (2016: 5.6 years).

Performance Share Plan ('PSP')

Under the PSP, the shares vest subject to performance conditions. The PSP share awards granted during the year had four sets of performance conditions associated with them: 30% of the award relates to Total Shareholder Return ('TSR') against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 30% relates to reduction in net debt; 30% 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 values of PSP awards granted to employees during the year, based on the defined market value on the date of grant and which allow for the effect of the TSR condition which is a market-based performance condition, are set out below:

	2017	2016
Weighted average fair value per share	**33p**	8p

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

	2017 Number	2016 Number
Outstanding at 1 January	**61,023,323**	20,348,024
Granted during the year(i)	**16,302,086**	47,934,689
Exercised during the year	**(2,412,846)**	(2,139,477)
Forfeited during the year	**(4,730,839)**	(5,119,913)
Outstanding at 31 December	**70,181,724**	61,023,323
Exercisable at 31 December	**2,816,844**	2,104,559

(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 $1.0 million is being 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 2017 was 4.0 years (2016: 4.5 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.

The fair values of Sharesave awards granted to employees during the year, based on the defined market value on the date the invitation for the scheme opens, are shown below:

	2017	2016
Weighted average fair value per share	8p	4p

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

	2017 Number	2016 Number
Outstanding at 1 January	12,657,432	6,949,242
Granted during the year[(i)]	1,299,185	10,823,513
Exercised during the year	(17,213)	(9,562)
Forfeited during the year	(1,105,135)	(5,105,761)
Outstanding at 31 December	12,834,269	12,657,432
Exercisable at 31 December	–	–

(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 0.91520291. The incremental fair value of these adjustments of $0.1 million is being expensed over the remaining vesting period of the options to which they relate.

The weighted average contractual life for the share options outstanding as at 31 December 2017 was 1.7 years (2016: 3.1 years).

Executive Director bonus awards

As detailed in the Directors' Remuneration Report, the remuneration of the Executive Directors includes the participation in an annual bonus plan. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

The fair value of the Executive Director bonus awards granted during the year, based on the defined market value on the date of grant, are set out below:

	2017	2016 Restated
Weighted average fair value per share	39p	32p

The following table shows the movement in the number of share awards held under the Executive Director bonus plan:

	2017 Number	2016 Restated Number
Outstanding at 1 January	2,869,393	1,203,517
Granted during the year	779,846	1,665,876
Cash settled in the year	(726,505)	–
Exercised during the year	(477,012)	–
Forfeited during the year	–	–
Outstanding at 31 December	2,445,722	2,869,393
Exercisable at 31 December	–	–

The weighted average contractual life for the share awards outstanding as at 31 December 2017 was 0.6 years (2016: 0.6 years).

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For the year ended 31 December 2017

19. Loans and borrowings

The Group's loans are carried at amortised cost as follows:

	2017			2016		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	**1,099,966**	**–**	**1,099,966**	1,037,516	–	1,037,516
Crude oil prepayment	**75,556**	**(378)**	**75,178**	–	–	–
SVT working capital facility	**25,622**	**–**	**25,622**	–	–	–
Tanjong Baram project finance loan	**8,531**	**(292)**	**8,239**	24,850	(690)	24,160
Trade creditor loan	**10,000**	**–**	**10,000**	40,000	–	40,000
Total loans	**1,219,675**	**(670)**	**1,219,005**	1,102,366	(690)	1,101,676

	2017 $'000	2016 $'000
Due within one year	**330,012**	49,601
Due after more than one year	**888,993**	1,052,075
Total loans	**1,219,005**	1,101,676

Credit facility

In October 2013, the Group entered into a six-year $1.7 billion multi-currency revolving credit facility (the 'RCF'), comprising of a committed amount of $1.2 billion (subject to the level of reserves) with a further $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 $1.125 billion and a revolving facility of $75 million (together the 'Credit Facility');
- Maturity date extended to October 2021;
- Amortisation profile amended, with 1 April 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 $890.7 million subject to interest at LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $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 Payment In Kind ('PIK') amount at maturity of each loan's maturity period;
- PIK amount repayable at maturity and subject to 9.0% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December;
- Accordion feature cancelled; and
- $12 million waiver fee payable to lenders on 31 March 2018.

The Group concluded that the above amendments to the RCF are a substantial modification, resulting in the previous loan carrying amount of $1,002.3 million ($1,017.3 million principal less unamortised issuance costs of $15.0 million) being derecognised and a new loan of $1,017.3 million being recognised at fair value. The difference of $15.0 million, which equated to the unamortised fees of the previous loan, was recognised as loss on extinguishment (see 2016 debt restructuring costs, note 4). The $12 million waiver fee along with $11.1 million of advisors' fees were directly attributable to the modification of the RCF and were also expensed as part of the loss on extinguishment (see note 4).

At 31 December 2017, the carrying amount of the Credit Facility on the balance sheet was $1,100.0 million, comprising the loan principal drawn down of $1,095.2 million, plus $4.8 million of interest capitalised to the PIK amount (2016: $1,037.5 million, being loan principal drawn down of $1,037.3 million plus $0.2 million of interest capitalised to the PIK amount).

At 31 December 2017, after allowing for letter of credit utilisation of $7.0 million, $97.8 million remained available for drawdown under the Credit Facility (2016: $6.4 million and $156.3 million respectively).

During November 2017, the Group agreed additional amendments to its Term Loan and Revolving Credit Facility. These changes include the deferral of the scheduled $140 million reduction in the Term Loan facility from 1 April 2018 to 1 October 2018. A single amortisation of the RCF is due of $270 million in October 2018.

Crude oil prepayment transaction

On 25 October 2017, the Group entered into an $80 million crude oil prepayment ('Prepay') with Mercuria Energy Trading SA.

Repayment will be made in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 mmbbls of oil. EnQuest will receive the average Brent price over each month subject to a floor of $45/bbl and a cap of approximately $64/bbl. Interest on the Prepay is payable at one month USD LIBOR plus a margin of 7.0%. The prepayment transaction is being undertaken on an unsecured basis.

At 31 December 2017, the carrying amount of the Prepay on the balance sheet was $75.6 million, comprising of the initial draw down of $80.0 million, less the repayment of $4.4 million of the principal. $0.3 million of interest is accrued on the balance sheet.

SVT working capital facility

On 1 December 2017, EnQuest NNS Limited entered into a £42 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and other interests (see note 29). The facility is able to be drawn down against in instalments and accrues interest at 1.0% per annum plus GBP LIBOR. The facility is repayable three years from the initial availability of the facility.

Tanjong Baram project finance loan
During the year ended 31 December 2015, the Group entered into a five year $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 $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 7.0% per annum, is repayable in instalments from 2018. A bonus of up to $1.7 million was payable at 31 December 2017 if the oil price was above $75/bbl in any period of 180 consecutive days between 1 October 2016 and 31 December 2017. At 31 December 2017, no bonus payment had been made or was due to be paid.

The bonus amount was accounted as an embedded derivative, which had a valuation of $nil at 31 December 2017 and 2016.

Bonds
The Group's bonds are carried at amortised cost as follows:

	2017			2016		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
High yield bond	**720,827**	**(8,467)**	**712,360**	677,482	(10,460)	667,022
Retail bond	**224,048**	**(2,057)**	**221,991**	191,258	(2,541)	188,717
Total bonds due after more than one year	**944,875**	**(10,524)**	**934,351**	868,740	(13,001)	855,739

High yield bond
In April 2014, the Group issued a $650 million high yield bond with an originally scheduled maturity of 15 April 2022 and paying a 7.0% 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 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional high yield Notes ('Additional HY Notes'). $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 maturity of the new high yield notes was extended to 15 April 2022 and 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 were not deemed to be a substantial modification and therefore $5.0 million of advisors' fees directly attributable to the modification of the high yield bond were adjusted against the carrying value of the bond and are being amortised over the bond's remaining term.

The fair value of the high yield bond was estimated to be $519.9 million (2016: $488.0 million). The price quoted for the retail bond was used to estimate the fair value of the high yield 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 7.0% 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 7.0% payable semi-annually in arrears. The interest will only be payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional Retail Notes ('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 were not deemed to be a substantial modification and therefore $0.8 million of advisors' fees directly attributable to the modification of the retail yield bond were adjusted against the carrying value of the bond and are being amortised over the bond's remaining term.

The bond had a fair value of $161.6 million (2016: $138.7 million). The fair value of the 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

	2017		2016	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Commodity contracts (at fair value through profit or loss)	–	41,996	2,973	34,548
Foreign exchange contracts (at fair value through profit or loss)	–	–	–	9,726
Interest rate swap designated as cash flow hedge (at fair value through OCI)	36	–	41	–
Other receivables (loans and receivables)	61,701	–	36,328	–
Other liabilities (at amortised cost)	–	19,211	–	–
Total current	**61,737**	**61,207**	39,342	44,274
Other receivables (loans and receivables)	8,191	–	23,429	–
Other liabilities (at amortised cost)	–	7,121	–	19,767
Total non-current	**8,191**	**7,121**	23,429	19,767

(b) Commodity contracts

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

Oil price hedging

In October 2017, the Group entered into an 18-month collar structure for $80 million (see note 19). The collar includes 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. During 2017, losses totalling $5.2 million were recognised within unrealised revenue in the income statement.

The Group has not entered into any other put options within 2017. All put options entered into in 2016 matured within the year ended 31 December 2016. In 2016, gains of $193.2 million were included in realised revenue in the income statement in respect of these matured options and $2.5 million of gains deferred in the prior year on the early close-out of effective hedges were recognised in realised revenue. Mark to market losses on the time value element of the put options in 2016 totalling $5.4 million was recognised in finance costs. Of this amount, $36.5 million was 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 were recognised as an exceptional credit/charge in line with the Group's accounting policy.

Gains totalling $43.9 million were realised during 2016 in respect to fixed price oil swap contracts. These contracts were for 2 million barrels of 2016 production with a fixed price of $66.6/bbl and were designated as effective hedges at 31 December 2015. An unrealised gain of $5.8 million was recognised as an exceptional item in the income statement.

Commodity derivative contracts at fair value through profit or loss ('FVTPL')

Commodity derivative contracts are designated as at FVTPL, and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, bought put options and commodity swap contracts.

For the year ended 31 December 2017, losses totalling $28.3 million (2016: losses of $35.3 million) were recognised in respect of commodity contracts designated as FVTPL. This included losses totalling $20.6 million (2016: gains of $16.2 million) realised on contracts that matured during the year, and mark to market losses totalling $7.7 million (2016: losses of $51.5 million). Of the realised amounts recognised during the year, $10.4 million (2016: $31.2 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.

The mark to market of the Group's open contracts as at 31 December 2017 was a loss of $29.2 million in respect of fixed price swap contracts for 4,150,000 barrels of 2018 production at a weighted average price of $59.1/bbl (2016: $40.5 million in respect of fixed price swap contracts for 5,998,000 barrels of 2017 production at a weighted average price of $51.3/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 $nil (2016: asset of $8.9 million).

(c) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, including Sterling, Euros and Norwegian Kroner. During the year ended 31 December 2017, these contracts resulted a realised gain of $0.4 million recognised in the income statement (2016: similar contracts resulted in a realised loss of $57.6 million and an unrealised gain of $7.7 million).

During 2017, the Group has continued to use an exchange structure to manage risk. The first exchange structure was entered into in 2016 and allowed the counterparty to elect to sell £47.5 million to EnQuest at an exchange rate of $1.4:£1 or purchase 1.3 million barrels of oil at $58/bbl. This structure expired on 30 June 2017. The second exchange structure allowed the counterparty to elect to sell £66 million to EnQuest at an exchange rate of $1.2:£1 or purchase 1.5 million barrels of oil at $60/bbl. This structure expired on 31 December 2017. From the exchange structures in the year, $4.8 million was recognised within other foreign currency contracts within cost of sales and no costs within other operating income (2016: $9.3 million and $nil respectively).

(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 Group's 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 $0.04 million (2016: $0.04 million). The impact recognised within finance expenses on the income statement was $0.02 million (2016: $0.06 million).

(e) Income statement impact

The income/(expense) recognised for commodity, currency and interest rate derivatives are as follows:

Year ended 31 December 2017	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000	Finance costs Realised $'000	Finance costs Unrealised $'000
Call options	**880**	**(18,670)**	**–**	**–**	**–**	**–**
Put options	**–**	**–**	**–**	**–**	**–**	**–**
Commodity swaps	**(23,754)**	**14,144**	**–**	**–**	**–**	**–**
Commodity futures	**(437)**	**(363)**	**–**	**–**	**–**	**–**
Purchase and sale of crude oil	**2,736**	**(2,827)**	**–**	**–**	**–**	**–**
Foreign exchange swaps	**–**	**–**	**–**	**433**	**–**	**–**
Other forward currency contracts	**–**	**–**	**(4,848)**	**9,293**	**–**	**–**
Interest rate swap	**–**	**–**	**–**	**–**	**15**	**(38)**
	(20,575)	**(7,716)**	**(4,848)**	**9,726**	**15**	**(38)**

Year ended 31 December 2016	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000	Finance costs Realised $'000	Finance costs Unrealised $'000
Call options	27,916	(16,654)	–	–	–	–
Put options	195,701	–	–	–	(36,458)	31,072
Commodity swaps	31,084	(37,823)	–	–	–	–
Commodity 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

(f) Other receivables and liabilities

	Other receivables $'000	Other liabilities $'000
At 1 January 2016	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**
Additions on acquisition	**38,420**	**6,742**
Disposed during the year	**(3,561)**	**–**
Change in fair value	**627**	**(340)**
Utilised during the year	**(27,209)**	**–**
Unwinding of discount	**1,832**	**163**
Foreign exchange	**26**	**–**
At 31 December 2017	**69,892**	**26,332**
Comprised of:		
Financial carry	–	7,211
Accrued waiver fee	–	12,000
KUFPEC receivable	7,065	–
BUMI receivable	24,407	–
Decommissioning of Magnus and other interests option	–	4,214
Thistle decommissioning option	16,120	–
Purchase option	22,300	–
Other	–	2,907
Total	**69,892**	**26,332**
Classified as:		
Current	61,701	19,211
Non-current	8,191	7,121
	69,892	**26,332**

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For the year ended 31 December 2017

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 $23.3 million over a 36 month period after Alma/Galia is deemed to be fully operational. $7.1 million was received during the year ended 31 December 2017 and the remaining receivable, discounted to present value, had a carrying value of $7.1 million at 31 December 2017 (2016: $14.0 million). Unwinding of discount of $0.2 million is included within finance income for the year ended 31 December 2017 (2016: $0.4 million).

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund $65 million (EnQuest's share being $45.8 million) of a $100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable during 2018 and onwards. Included within other receivables at 31 December 2017 is an amount of $24.4 million representing the discounted value of EnQuest's share of these repayments (2016: $43.5 million). A total of $20.1 million was collected during the period. Unwinding of discount of $1.6 million is included within finance costs in the twelve months ended 31 December 2017.

As part of the Magnus and other interests acquisition (see note 29), EnQuest entered into an option to undertake the decommissioning of Thistle. The financial asset of $16.1 million represents the difference between the $50 million cash that BP would transfer to EnQuest upon exercise of the option, and the net present value of the estimate cash outflow to settle the liability assumed.

In addition, the Group has an option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million. This option lapses in January 2019. In line with IAS 39, a discounted value of $22.3 million has been attributed to this option (see note 29).

Other receivables at 31 December 2016 also included $2.3 million representing the fair value of a convertible loan note from Ascent. This loan note was sold during the first half of 2017, realising a gain of $1.3 million.

Other liabilities

As part of the agreement to acquire an interest in the PM8/Seligi assets in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of $7.2 million has been disclosed as a financial liability (2016: $7.4 million). Unwinding of the discount of $0.2 million is included within finance expense for the year ended 31 December 2017 (2016: $0.3 million).

In addition, included in other liabilities is an accrued 'waiver fee' of $12.0 million 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.

As part of the Magnus and other interests acquisition (see note 29), EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Thistle and Deveron. The financial liability of $4.2 million relates to the amount due to BP by reference to 7.5% of BP's actual decommissioning costs on an after tax basis.

21. Fair value measurement

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

31 December 2017	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets measured at fair value:				
Derivative financial assets				
Interest rate swap(ii)	36	–	36	–
Other financial assets				
Available-for-sale financial investments: Quoted equity shares	152	152	–	–
Thistle decommissioning option	16,120	–	–	16,120
Purchase option	22,300	–	–	22,300
Liabilities measured at fair value:				
Derivative financial liabilities				
Commodity derivative contracts(i)	41,996	–	41,996	–
Other financial liability				
Decommissioning of Magnus and other interests option	4,214	–	–	4,214
Liabilities for which fair values are disclosed (see notes 19 and 24)				
Interest bearing loans and borrowings	1,219,675	–	–	1,219,675
Obligations under finance leases	797,933	–	–	797,933
Sterling retail bond	161,595	161,595	–	–
High yield bond	519,896	–	519,896	–

31 December 2016	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'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 (see 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.

Fair value hierarchy
All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between Level 1 and Level 2 during the period (2016: no transfers).

For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the Group uses the valuation processes to decide its valuation policies and procedures and analyse changes in fair value measurements from period to period. Level 3 financial instruments consist of interest bearing loans and borrowings (see note 19) and contingent consideration (see note 24), which are valued in accordance with the Group's accounting policies.

22. Provisions

	Decommissioning provision $'000	Carry provision $'000	Cost recovery provision $'000	Contingent consideration $'000	Surplus lease provision $'000	Total $'000
At 1 January 2016	506,770	–	127,121	26,269	26,417	686,577
Additions during the year	44,454	–	–	–	–	44,454
Acquisitions	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**
Additions during the year	**63,613**	**–**	**10,329**	**3,131**	**–**	**77,073**
Acquisitions (see note 29)	**–**	**–**	**–**	**66,623**	**–**	**66,623**
Changes in estimates	**80,881**	**–**	**(77,785)**	**–**	**194**	**3,290**
Change in fair value	**–**	**–**	**–**	**(423)**	**–**	**(423)**
Unwinding of discount	**11,471**	**–**	**1,838**	**255**	**17**	**13,581**
Utilisation	**(10,605)**	**(5,491)**	**–**	**(9,000)**	**(394)**	**(25,490)**
Foreign exchange	**–**	**–**	**–**	**–**	**253**	**253**
At 31 December 2017	**639,251**	**–**	**23,911**	**83,166**	**2,886**	**749,214**
Classified as:						
Current	11,138	–	5,178	26,512	387	43,215
Non-current	628,113	–	18,733	56,654	2,499	705,999
	639,251	–	23,911	83,166	2,886	749,214

Decommissioning provision
The Group makes full provision for the future costs of decommissioning its 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 Group's total 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 2.0% (2016: 2.3%). The unwinding of the discount is classified as a finance cost (see note 6).

Acquisitions during the year ended 31 December 2016 reflect amounts associated with the additional interests in the Kraken and West Don fields acquired during the year which were $7.5 million and $7.6 million, respectively (see note 29).

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 which expired in December 2017 were renewed for 12 months, subject to on-going compliance with the terms of the Group's borrowings. At 31 December 2017, the Group held surety bonds totalling $129.6 million (2016: $118.5 million).

Carry provision
Consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil PLC ('First Oil') in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which took place in Q2 2016. During 2017, $5.5 million of the carry had been paid, with no remaining liability recognised on the balance sheet as at 31 December 2017 (2016: $21.1 million paid and $5.5 million remaining).

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 had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid 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 2017 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 2.0% per annum from 2012. These cash flows have been discounted at a rate of 2.0% (2016: 2.3%).

During 2017, the Group entered into discussions with Petronas in relation to the prior period PM8 cost recovery at the PM8 concession. A provision has been made for the expected payments that the Group will make as part of the settlement agreement. The provision is expected to be paid in two parts during 2018 and 2019, as disclosed within current and non-current provisions. At 31 December 2017, the provision was $10.3 million.

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 field development plan ('FDP') approval and 'first oil'. EnQuest paid $3.0 million in November 2015, following FDP approval in October 2015, and $9.0 million during 2017. $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 $75/bbl on a linear basis up to $100/bbl, with a cap on total payments of $20.0 million. The cash flows have been discounted using a 2.0% discount rate (2016: 3.0%). 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 $0.4 million for the year ended 31 December 2017 (2016: $0.7 million). The carrying value of the Scolty/Crathes contingent consideration at 31 December 2017 is $8.1 million (31 December 2016: $17.3 million).

In addition, there is consideration due subject to future exploration success which, having been reassessed for the year ended 31 December 2017, continues to be held at $5.3 million.

On 1 December 2017 the acquisition of the Magnus oil field and other interests (see note 29) was funded through a vendor loan from BP, recognised as contingent consideration at a fair value of $66.6 million. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from the Transaction assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The fair value has been estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment of around three years.

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 2.0% (2016: 2.3%) discount rate. At 31 December 2017, the provision was $2.9 million (2016: $2.8 million).

23. Trade and other payables

	2017 $'000	2016 $'000
Current		
Trade payables	**144,584**	232,277
Accrued expenses	**271,686**	183,753
Over-lift position	**23,173**	35,058
Joint venture creditors	**1,632**	456
Other payables	**5,014**	1,304
	446,089	452,848
Classified as:		
Current	**367,312**	410,261
Non-current	**78,777**	42,587
	446,089	452,848

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 2018 and the balance is expected to be fully settled in 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.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

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:

	2017 $'000	2016 $'000
Due in less than one year	**7,177**	4,296
Due in more than one year but not more than five years	**27,286**	17,412
Due in more than five years	**75,536**	62,990
	109,999	84,698

Lease payments recognised as an operating lease expense during the year amounted to $5.3 million (2016: $4.8 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 $7.1 million (2016: $9.4 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:

	2017 $'000	2016 $'000
Due in less than one year	**1,638**	202
Due in more than one year but not more than five years	**7,141**	5,877
Due in more than five years	**4,686**	5,869
	13,465	11,948

Sub-lease rent recognised during the year amounted to $1.3 million (2016: $1.6 million).

(iii) Finance lease commitments

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

	2017 Minimum payments $'000	2017 Present value of payments $'000	2016 Minimum payments $'000	2016 Present value of payments $'000
Due in less than one year	**173,846**	**118,009**	–	–
Due in more than one year but not more than five years	**460,960**	**289,949**	–	–
Due in more than five years	**456,374**	**389,975**	–	–
	1,091,180	**797,933**	–	–
Less future financing charges	**293,247**	**–**	–	–
	797,933	**797,933**	–	–

Finance leases with an effective borrowing rate of 8.12% were entered into during the year (see note 10).

On 20 December 2013, the Group entered into a bareboat charter with BUMI for the lease of an FPSO vessel for the Kraken field. BUMI constructed the vessel and the Group made an initial prepayment of $100.0 million during 2014. In August 2016, it was agreed that $65.0 million of this prepayment would be refunded (see note 20(f)).

In June 2017, the Group's lease of the FPSO commenced. The lease has been assessed as a finance lease, and a $772.0 million lease liability and lease asset were recognised in June 2017. The liability was calculated based on the present value of the minimum lease payments at inception of the lease. The lease liability is carried at $797.9 million as at 31 December 2017, of which $118.0 million is classified as a current liability. Finance lease interest of $31.3 million has been recognised within finance costs.

(iv) Capital commitments

At 31 December 2017, the Group had capital commitments excluding the above lease commitments amounting to $33.8 million (2016: $267.3 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 $91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are on-going and the Directors believe that a considerable period will elapse before a final decision is reached by the courts.

The Directors consider the merits of the claim to be poor and the Group is defending 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 $15.0 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. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

There are a number of contractual matters not agreed between the Group and BUMI relating to the charter of the FPSO on the Kraken field. The Group considers that these matters will not adversely impact its payment obligations in relation to the charter.

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 2017 (2016: none).

Share subscription

In 2016, subscription for new Ordinary shares pursuant to the placing and open offer (see 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 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 $0.2 million due to Double A was outstanding as at 31 December 2016 and settled subsequently during 2017.

Office sublease

During the year ended 31 December 2017, the Group recognised $0.1 million of rental income in respect of an office sublease arrangement with Levendi Investment Management, a company where 72% of the issued share capital is held by Amjad Bseisu (2016: $0.1 million rental income from AA Capital Analysts Limited, a company whose majority controlling shareholder is Double A Limited).

Contracted services

During the year ended 31 December 2017, the Group obtained contracting services from Influit UK Production Solutions for a value of US$0.04 million. Amjad Bseisu has an indirect interest in Influit UK Production Solutions.

Compensation of key management personnel

The following table details remuneration of key management personnel of the Group. Key management personnel comprise of Executive and Non-Executive Directors of the Company and other senior personnel. This includes the Executive Committee for the year ended 31 December 2017.

	2017 $'000	2016 $'000
Short-term employee benefits	**5,057**	5,002
Share-based payments	**1,305**	3,770
Post-employment pension benefits	**55**	33
	6,417	8,805

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

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 2017 and 2016, 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 2017 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 5.5 million barrels as at 31 December 2017), with all other variables held constant. As the derivatives on hand at 31 December 2017 have not been designated as hedges, there is no impact on equity.

	Pre-tax profit		Total equity	
	+$10/bbl increase $'000	-$10/bbl decrease $'000	+$10/bbl increase $'000	-$10/bbl decrease $'000
31 December 2017	**(68,350)**	**48,320**	**–**	**–**
31 December 2016	(58,000)	60,000	–	–

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 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. Approximately 2% (2016: 1%) of the Group's sales and 83% (2016: 81%) of costs (including capital expenditure) are denominated in currencies other than the functional currency.

At 31 December 2016, the Group had a forward foreign currency contract in place for NOK37.1 with a strike price of NOK8.61/£1 which matured in Q1 2017 as a result of the exchange structure entered into in June 2016 (see note 20). As at 31 December 2017, all exchange structures have matured (see note 20).

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures.

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 2017 $'000**	Year ended 31 December 2016 $'000
+10%	**(43,100)**	(48,250)
-10%	**43,100**	48,250

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 in note 26). For banks and financial institutions, only those rated with an 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 2017 there were $23.6 million of trade receivables past due (2016: $5.6 million), $1.7 million of joint venture receivables past due (2016: $8.6 million) and $nil (2016: $nil) of other receivables past due but not impaired. Subsequent to year end, $1.5 million of these outstanding balances have been collected (2016: $10.9 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Ageing of past due but not impaired receivables	2017 $'000	2016 $'000
Less than 30 days	1,726	6,101
30-60 days	–	–
60-90 days	253	–
90-120 days	–	656
120+ days	23,301	7,473
	25,280	14,230

At 31 December 2017, the Group had four customers accounting for 84% of outstanding trade receivables (2016: three customers, 90%) and three joint venture partners accounting for 97% of joint venture receivables (2016: five joint venture partners, 90%).

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 2017, $97.8 million (2016: $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 2017	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	–	424,886	347,603	667,975	–	1,440,464
Bonds(i)	–	66,141	66,141	1,112,842	–	1,245,124
Obligations under finance leases	–	118,009	64,142	225,807	389,975	797,933
Trade and other payables	–	364,472	157,554	–	–	522,026
Other financial liabilities	–	7,211	–	–	–	7,211
	–	980,719	635,440	2,006,624	389,975	4,012,758

Year ended 31 December 2016	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'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 $65/bbl for the six months preceding the coupon payment date (see note 19).

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

26. Risk management and financial instruments continued

The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis. 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 2017	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	(4,991)	(29,616)	(10,850)	(1,531)	–	(46,988)
Chooser contract	(1,035)	–	–	–	–	(1,035)
Interest rate swaps	–	(13)	(19)	–	–	(32)
	(6,026)	(29,629)	(10,869)	(1,531)	–	(48,055)

Year ended 31 December 2016	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'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)

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.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long-term, in order to enable it to foresee when additional capital will be required. On 21 November 2016, the Group completed a comprehensive package of financial restructuring measures (see 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 1, 60% in year 2 and 50% in year 3. 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:

	2017 $'000	2016 $'000
Loans, borrowings and bond(i) (A)	2,164,550	1,971,106
Cash and short-term deposits	(173,128)	(174,634)
Net debt/(cash) (B)	1,991,422	1,796,472
Equity attributable to EnQuest PLC shareholders (C)	760,866	818,852
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	(60,830)	185,212
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	(33,554)	121,510
Gross gearing ratio (A/C)	2.8	2.4
Net gearing ratio (B/C)	2.6	2.2
Shareholders' return on investment (D/C)	(8%)	23%
Shareholders' return on investment excluding exceptionals (E/C)	(4%)	15%

(i) Principal amounts drawn, excludes netting off of fees (see note 19).

27. Post balance sheet events

On 31 January 2018, following the acquisition of the initial 25% interest in the Magnus oil field (see note 29), EnQuest agreed with BP to undertake the management of the physical decommissioning activities for Thistle and Deveron. EnQuest will receive $30 million in cash in exchange for undertaking the management of the physical decommissioning and making payments by reference to 3.7% of the gross decommissioning costs of the Thistle and Deveron fields when spend commences, subject to a cap of £57 million. EnQuest will also have an option, exercisable over a 12 month period, to receive a further $20 million in cash in exchange for making additional payments by reference to 2.4% of the gross decommissioning costs of these fields, subject to a cap of £42 million.

28. Subsidiaries

At 31 December 2017, 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%
EnQuest Petroleum Developments Malaysia SDN. BHD(i)[5]	Exploration, extraction and production of hydrocarbons	Malaysia	100%
EnQuest NNS Holdings Limited	Intermediate holding company	England	100%
EnQuest NNS Limited	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

The Group has three branches outside the UK (all held by subsidiary undertakings): EnQuest Global Services Limited (Dubai); EnQuest Petroleum Production Malaysia Limited (Malaysia); and EQ Petroleum Sabah Limited (Malaysia).

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, Scotland, 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. Business combinations

Acquisition of Magnus and other interests

On 1 December 2017, EnQuest completed the acquisition from BP plc of an initial 25% interest in the Magnus oil field ('Magnus') 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').

The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential. The required regulatory, government authority, counterparty and partner consents have been obtained for the transaction.

The transaction is an acquisition of an interest in a joint operation under IFRS 11 and, as the activity constitutes a business as defined in IFRS 3 Business Combination, the acquisition has been accounted for as a business combination. The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition, and the results of the Transaction assets for the one month period from the acquisition date.

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment (see note 10)	124,542
Purchase option(iii)	22,300
Financial asset(i)	16,120
Inventory	14,884
	177,846
Liabilities	
Trade and other payables (see note 23)	(8,459)
Financial liabilities(ii)	(4,214)
Deferred tax liability (see note 7)	(49,816)
	(62,489)
Total identifiable net assets at fair value	**115,357**
Excess of fair value over cost arising on acquisition:	
Purchase option(iii)	(22,300)
Thistle decommissioning option(i)	(16,120)
25% acquisition value	(10,314)
Total excess of fair value over cost arising on acquisition(iv)	**(48,734)**
Purchase consideration through vendor loan	**66,623**

(i) The financial asset relates to the Thistle decommissioning option, and represents the difference between the $50 million cash that BP would transfer to EnQuest upon exercise of the option, and the net present value of the estimated cash outflow to settle the liability assumed.
(ii) The financial liability relates to the amount due to BP by reference to 7.5% of BP's actual decommissioning costs on an after-tax basis. The additional consideration EnQuest may pay is capped at the amount of cumulative positive cash flows received by EnQuest from the Transaction assets.
(iii) The financial asset relates to the purchase option to acquire the remaining 75% of Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million.
(iv) The initial accounting for the acquisition of the Transaction assets has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the Directors' best estimates. Thus, the fair value of the net asset may be subsequently adjusted, with a corresponding adjustment to goodwill prior to 1 December 2018 (one year after the transaction).

In addition to the above identifiable assets and liabilities, under the terms of the agreement, the Group has an option to acquire the remaining 75% of the Magnus oil field and BP's interest in the associated infrastructure for a value of $300 million. This option lapses in January 2019. In line with IAS 39, a discounted value of $22.3 million has been attributed to this option and recorded within other financial assets (see note 20).

EnQuest also has the option to receive $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 6.0% of the gross decommissioning costs of Thistle and Deveron fields (see note 20). In January 2018, the Group exercised part of the option (see note 27).

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to BP's strategic decision to partner with EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential. The gain has been immediately recognised through exceptionals in the statement of comprehensive income.

At the date of acquisition, the fair value of the net assets was $115.4 million. At 31 December 2017, none of the trade receivables have been impaired.

Fair value of consideration

The consideration payable has been satisfied via a vendor loan from BP. The loan is repayable solely out of the cash flows which are achieved above operating cash flows from the Transaction assets and is secured over the interests in the Transaction assets. The loan accrues interest at a rate of 5.0% per annum on the base consideration. The base consideration was $85 million, which was adjusted for interim period and working capital adjustments since the economic date of 1 January 2017, resulting in contingent consideration of $66.6 million. The present value of the contingent consideration was calculated from the future expected cash flows, at a discount rate of 10.0% and assumed repayment of around three years. This is recognised within contingent consideration within provisions (see note 22).

From the date of acquisition, the Transaction assets have contributed $14.0 million of revenue and $2.1 million to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $73.9 million and the profit before tax from continuing operations would have been $25.9 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

All transaction costs were paid by BP as part of the deal agreement.

Information on prior year acquisitions

The net assets acquired during the year ended 31 December 2016 were recognised as follows:

	15.15% interest in West Don $'000	10.5% interest in Kraken $'000	Total $'000
Property, plant and equipment (see 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 (see note 7)	268	–	268
Accrued expenses	(538)	(31,581)	(32,119)
Provision for decommissioning (see note 22)	(7,633)	(7,520)	(15,153)
Net identifiable assets	**2,464**	**4,998**	**7,462**

In February 2016, the Group acquired an additional 10.5% interest in the Kraken development asset from First Oil for nominal consideration, resulting in a revised working interest of 70.5% in this joint arrangement. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above.

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. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above. The consideration of $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.

Notes to the Group Financial Statements CONTINUED

For the year ended 31 December 2017

30. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Profit/(loss) before tax		**(243,773)**	217,244
Depreciation	5(c)	**4,500**	3,930
Depletion	5(b)	**224,698**	241,879
Exploration costs impaired/(reversed) and written off	5(d)	**(193)**	776
Net impairment (reversal)/charge to oil and gas assets	4	**171,971**	(147,871)
Write down of inventory	4	**(2,682)**	–
Write down of asset	4	**2,808**	–
Loss on disposal of intangible oil and gas assets	4	**–**	16,178
Excess of fair value over consideration	4	**(48,734)**	–
Gain on disposal of loan notes	5(d)	**(1,263)**	–
Impairment (reversal)/charge to investments	4	**19**	(48)
Share-based payment charge	5(f)	**2,849**	8,452
Shares purchased on behalf of Employee Benefit Trust	17	**(1,763)**	–
Change in deferred consideration	5(d)	**–**	(4,056)
Change in surplus lease provision	22	**(200)**	(23,025)
Change in decommissioning provision	5(d)	**–**	(1,627)
Change in other provisions	22	**10,161**	–
Hedge accounting deferral	20	**–**	(2,456)
Amortisation of option premiums	20	**(10,445)**	(31,210)
Unrealised (gain)/loss on financial instruments	5(a)(b)	**(2,010)**	53,088
Unrealised exchange loss/(gain)	5(e)	**23,910**	(51,867)
Net finance (income)/expense	6	**147,079**	127,835
Operating profit before working capital changes		**276,932**	407,222
Decrease/(increase) in trade and other receivables		**(13,611)**	26,579
(Increase)/decrease in inventories		**2,039**	(7,356)
(Decrease)/increase in trade and other payables		**61,674**	(18,198)
Cash generated from operations		**327,034**	408,247

Changes in liabilities arising from financing activities

Year ended 31 December 2017[(i)]	Loans and borrowings (see note 19) $'000	Bonds (see note 19) $'000	Finance leases (see note 24) $'000	Total $'000
At 1 January 2017	**(1,102,366)**	**(868,740)**	**–**	**(1,971,106)**
Cash flows	**(112,001)**	**–**	**–**	**(112,001)**
Additions	**–**	**–**	**(771,975)**	**(771,975)**
Foreign exchange adjustments	**(552)**	**(18,828)**	**–**	**(19,380)**
Capitalised PIK	**–**	**(58,242)**	**–**	**(58,242)**
Unwind of finance discount	**–**	**–**	**(31,273)**	**(31,273)**
Other non-cash movements	**(4,756)**	**935**	**5,315**	**1,494**
	(1,219,675)	**(944,875)**	**(797,933)**	**(2,962,483)**

(i) First year adoption of IAS 7 amendment, therefore comparative information is not required.

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 2017

	Note	2017 $'000	2016 $'000
Fixed assets			
Investments	3	**894,512**	984,958
Current assets			
Debtors			
– due within one year	5	**10,323**	6,411
– due after one year	5	**1,042,427**	936,134
Cash at bank and in hand	4	**60**	9,935
		1,052,810	952,480
Creditors: amounts falling due within one year	7	**(236,851)**	(231,428)
Net current assets		**815,959**	721,052
Total assets less current liabilities		**1,710,471**	1,706,010
Creditors: amounts falling due after one year	8	**(934,352)**	(855,739)
Net assets		**776,119**	850,271
Share capital and reserves			
Share capital and premium	9	**210,402**	208,639
Merger reserve		**905,890**	905,890
Other reserve		**40,143**	40,143
Share-based payment reserve		**(5,516)**	(6,602)
Profit and loss account		**(374,800)**	(297,799)
Shareholders' funds		**776,119**	850,271

The attached notes 1 to 12 form part of these Company financial statements.

The financial statements were approved by the Board of Directors on 19 March 2018 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity

At 31 December 2017

	Share capital and share premium $'000	Merger reserve $'000	Other reserve $'000	Share-based payments reserve $'000	Profit and loss account $'000	Total $'000
At 1 January 2016	113,433	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	95,206	–	–	–	–	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	**208,639**	**905,890**	**40,143**	**(6,602)**	**(297,799)**	**850,271**
Loss for the year	**–**	**–**	**–**	**–**	**(77,001)**	**(77,001)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(77,001)**	**(77,001)**
Share-based payment charge	**–**	**–**	**–**	**2,849**	**–**	**2,849**
Shares issued on behalf of Employee Benefit Trust	**1,763**	**–**	**–**	**(1,763)**	**–**	**–**
At 31 December 2017	**210,402**	**905,890**	**40,143**	**(5,516)**	**(374,800)**	**776,119**

Notes to the Financial Statements

For the year ended 31 December 2017

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 19 March 2018.

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company incorporated and 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 previously 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 fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. 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 ($'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 2017 of $77.0 million (2016: loss of $42.5 million). There were no other recognised gains or losses in the period (2016: nil).

Going concern

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and, notwithstanding the material uncertainty as provided in the 'Going Concern' section of the Financial Review, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period. See the Financial Review for further details.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

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 are filed with the tax authority and, significantly, before these have been agreed. As a result, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate.

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

Foreign currencies

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

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 Company 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.

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 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.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or other financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

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

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.

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 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.

Notes to the Financial Statements CONTINUED

For the year ended 31 December 2017

2. Summary of significant accounting policies continued

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.

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 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 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 (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 $'000	Available-for-sale investments $'000	Total $'000
Cost			
At 1 January 2016	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**
Additions	**2,849**	**–**	**2,849**
At 31 December 2017	**1,373,943**	**1,797**	**1,375,740**
Provision for impairment			
At 1 January 2016	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**
Impairment charge for the year	**93,276**	**19**	**93,295**
At 31 December 2017	**479,583**	**1,645**	**481,228**
Net book value			
At 31 December 2017	**894,360**	**152**	**894,512**
At 31 December 2016	984,787	171	984,958
At 31 December 2015	987,749	123	987,872

The Company has recognised an impairment of its investment in subsidiary undertakings of $93.3 million (2016: $11.4 million). The impairment for the year ended 31 December 2017 is attributable primarily to underlying natural declines in the fields and movement of cessation of production on Heather/Broom (see note 10 of the Group financial statements).

Details of the Company's subsidiaries at 31 December 2017 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. See note 13 of the Group financial statements for more detail on the impairment.

4. Cash at bank and in hand

	2017 $'000	2016 $'000
Cash at bank and in hand	**60**	9,935

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

	2017 $'000	2016 $'000
Due within one year		
Amounts due from subsidiaries	**10,231**	4,113
Prepayments	**–**	28
Other financial assets	**92**	2,270
	10,323	6,411

	2017 $'000	2016 $'000
Due after one year		
Amounts due from subsidiaries	**1,042,427**	936,134

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. During 2017, the convertible loan note was sold for a realised gain of $1.3 million.

6. Deferred tax

The Company has unused UK mainstream corporation tax losses of $57.8 million (2016: $65.9 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

	2017 $'000	2016 $'000
Bond interest	**16,574**	10,264
Amounts due to subsidiaries	**220,056**	218,227
Accruals	**221**	2,937
	236,851	231,428

8. Creditors: amounts falling due after one year

	2017 $'000	2016 $'000
Bonds	**934,352**	855,739

At 31 December 2017, bonds comprise a high yield bond with principal of $720.8 million (2016: $672.5 million) and a retail bond with principal of £166.0 million (2016: £155.0 million). The bonds mature in April 2022 and pay a coupon of 7.0% bi-annually. See note 19 of the Group financial statements.

Notes to the Financial Statements CONTINUED

For the year ended 31 December 2017

9. Share capital and share premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2017	1,159,398,871	83,342	125,297	208,639
Issuance of equity shares	26,685,433	1,763	–	1,763
At 31 December 2017	**1,186,084,304**	**85,105**	**125,297**	**210,402**

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 $101.6 million. On 21 November 2016, 10,739,486 shares were acquired by the Employee Benefit Trust pursuant to the open offer.

At 31 December 2017, there were 56,023,671 shares held by the Employee Benefit Trust (2016: 33,563,282). On 18 October 2017, 26,685,433 shares were issued to the Employee Benefit Trust with the remainder of the movement in the year 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(g) of the Group financial statements.

12. Post balance sheet events

See 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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Financial calendar
24 May 2018: 2018 Annual General Meeting
7 September 2018: 2018 Half year results (subject to change)

Glossary
For a full list of Company definitions, please visit the glossary in the media centre section of our website www.enquest.com.

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