Providing creative solutions through the energy transition

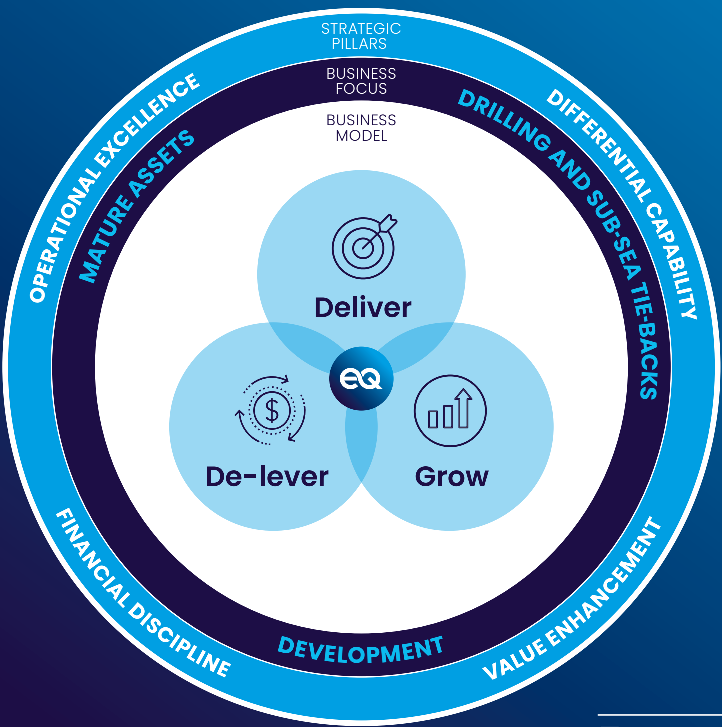
Our purpose

Providing creative solutions through the energy transition

Our strategy

EnQuest's strategic vision is to be the operator of choice for maturing and underdeveloped hydrocarbon assets by focusing on operational excellence, differential capability, value enhancement and financial discipline.

Our business model



Read more
See pages 01, 06 to 07, 10 to 23 and 26–33

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Highlights

EnQuest's quick and decisive actions in early 2020 have transformed the Company, materially lowering its cost base and free cash flow breakeven[1]. Production for the year was in line with guidance, reflecting a better than expected performance at Kraken offset by lower production in Malaysia, while operating and capital expenditures were reduced by $296 million. Free cash flow generation of $211 million was strong, facilitating a further reduction in net debt. Business performance gross profit of $71.4 million was 84.8% lower than 2019, primarily reflecting lower market prices for oil. The Group recorded a Business performance loss before finance costs and tax of $20 million, reflecting the increased non-cash decommissioning provision for fully impaired assets.

The proposed acquisition of the Golden Eagle assets in the UK North Sea will strengthen the business, adding material low-cost production and cash flows.

2020 performance

Net production
(Boepd)

59,116
-14%

Unit opex[1]
($/Boe)

15
-26%

EBITDA[1]
($ million)

551
-45%

Free cash flow breakeven[2]
($/Boe)

32
-35%

2021 outlook[3]

Net production range
(Boepd)

c.46,000 to 52,000

Operating expenditure
($ million)

c.265

Cash capital and abandonment expenditure
($ million)

c.120

Read more
See pages 04, 10 to 23 and 26 to 31

2020 statutory reporting metrics	**2020 $m**	2019 $m	Change %
Revenue and other operating income	**865.6**	1,646.5	(47.4)
Profit/(loss) before tax	**(566.0)**	(729.1)	22.4
Basic earnings/(loss) per share (cents)	**(37.8)**	(27.4)	(38.0)
Net cash flow from operating activities	**522.1**	962.3	(45.7)
Net assets/(liabilities)	**(64.6)**	559.1	(114.0)

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176
2 Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production
3 Based on the Group's existing portfolio

This Strategic report includes details of EnQuest's strategy, business model, capabilities, Values, performance 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, the Operating and Financial reviews and the Environmental, Social and Governance section.

Unless otherwise stated, all figures quoted in the Strategic report are on a Business performance basis and are in US Dollars.

Stakeholder engagement

Section 172 Statement

The Directors have always had regard for the potential impact of the Group's activities on its various stakeholders. In the majority of cases, information and feedback are provided throughout the year to the Directors by the Group's Executive Directors, senior and functional management and external advisers through a variety of Board reports, presentations and ad hoc correspondence. When appropriate, the Directors may advise further engagement is required, which could potentially be direct engagement by the relevant Director, and/or request additional information to ensure they have a full appreciation of a given situation prior to making any decisions. As such, the Directors are able to fulfil their duty to promote the long-term success of the Company for its stakeholders.

The Directors consider the items disclosed on the following page to be principal decisions on the basis of materiality of the incremental impact these are anticipated to have on a number of stakeholders and/or the Company.

Stakeholder	Why they are important	Direct Board-level engagement in 2020
A. Workforce	Our employee and contractor workforce is critical to the delivery of SAFE Results and EnQuest's success. As such, we are committed to ensuring EnQuest remains a great place to work. We have a strong set of Values that underpin our way of working and are dedicated to delivering SAFE Results. We provide a rewarding work environment, with opportunities for growth and learning while contributing to the delivery of our strategy.	Employee forum; video messages; subject matter expert virtual attendance at Board and Board Committee meetings; physical and virtual safety leadership engagement visits, corporate purpose evolution; and interactive virtual town halls.
B. Investors	Our investors support management in the execution of EnQuest's business strategy, including the provision of capital for management to develop the business in order to deliver returns in a responsible manner.	Virtual meetings, calls and direct correspondence in relation to the Group's financial and operating performance, purpose statement, ESG philosophy, emissions reduction targets and the Group's proposed Remuneration Policy updates.
C. Partners	We collaborate with our joint venture partners, securing their support to deliver our asset plans. We value their contribution to the effective operational and financial management of our assets as we deliver on our business strategy.	None.
D. Host governments and regulators	EnQuest works closely with the host governments and regulators in the jurisdictions in which it operates. The Group complies with the necessary regulatory requirements, including those related to environmental matters such as reducing emissions, to ensure the Company maintains a positive reputation and licence to operate, enabling the effective delivery of the Group's plans for its existing portfolio and providing access to appropriate growth opportunities.	Video meetings and calls with the Oil and Gas Authority in the UK and Malaysian Petroleum Management in Malaysia.
E. Suppliers	EnQuest relies on its suppliers to provide specialist equipment and services, including skilled manpower, to assist in the delivery of SAFE Results.	None.
F. Communities	Making a positive contribution and appropriately managing our environmental impact in the communities in which we live and work around the world remains a key part of our activities. Our communities provide a potential source of employees, contractors and support services, and are important in supporting EnQuest's social licence to operate and maintaining a positive reputation.	None.
G. Customers	Our customers help facilitate the provision of hydrocarbon-related products to meet a variety of consumer demands and, as such, require a reliable supply of hydrocarbons to meet their needs.	None.

1 Based on the Group's existing portfolio at 1 January 2021

Other 2020 activities
See pages 16 and 17 for an overview of the UK's Transformation 2020 programme and pages 38 to 43 of the ESG section which detail the various people-related initiatives implemented during the year, including the employee survey results and our people's safety and wellbeing, particularly in relation to the asset integrity issues faced in 2020, combined with the dual impacts of EnQuest's response to COVID-19 (also see pages 08 to 09) and the UK Transformation programme.
See the Strategic report on pages 01 to 63 which explains the Company's performance and investment decisions during 2020. Page 72 of the Corporate governance statement outlines how the Group engages with its investors.
The Group has regular engagement with its joint venture partners on day-to-day asset management and the execution of the longer-term asset strategy. This occurs through a combination of formal interactions, governed by joint operating agreements, and via informal engagement, including sharing of relevant industry experience, insights and best practice and/or developing performance improvement initiatives. See pages 18 to 23 of the Strategic report for further details on operational and financial activities and decisions undertaken across our assets. Joint venture partners are recognised as one of the Group's principal risks and uncertainties on page 57.
For further details, see pages 08 to 09 for our COVID-19 response which was aligned to government and regulatory advice, the Strategic report on pages 01 to 63 and the Group's Principal Risks and Uncertainties on pages 46 to 59, which outline EnQuest's strong relationships with governments and regulators. Pages 32, 33 and 63 of the ESG section and pages 110 to 113 of the Directors' Report outline further details on the Group's regulatory compliance activities.
The Group has continued its active and positive engagement with its suppliers through various supplier forums, performance reviews, ad hoc virtual meetings and industry events, including those related to the Group's future decommissioning programmes. The Company continues to monitor and report its supplier payment performance. Please also see the Group's Principal Risks and Uncertainties on pages 46 to 59, a number of which are impacted by the Group's supplier relationships.
For further details on the Group's community engagement and environmental considerations, see pages 32, 33 and 45 of the ESG section, with the importance of maintaining a positive reputation outlined in the Group's Principal Risks and Uncertainties on page 50.
The Company has maintained strong relationships with its existing customers, including fuel oil blenders to whom it supplies Kraken oil as an unrefined constituent of IMO 2020 compliant low-sulphur bunker fuel. By selling directly to the fuel oil market, Kraken cargoes avoid refining-related emissions.

Principal decision and impacted stakeholders	Stakeholder impacts considered
Cessation of production decisions Impacted stakeholders: A, B, C, D, E, F and G	Separate cessation of production decisions were made for the Heather and Thistle assets in early 2020, however the stakeholders impacted and the associated considerations are the same Role reductions and change in day-to-day activities balanced by new decommissioning and/or other asset/office roles Lowering of production targets and reserves and resources balanced by re-focusing the Group's operations on the lowest cost assets; impacts on near-term cash flow and liquidity balanced with long-term reserve and resource maturation and development Decommissioning activities impacting production and cash flows Change in focus for supply chain, sector employment and lower UK North Sea CO_2e emissions Changing focus for and timing of supply chain activities Impacts on the local economy Potential cargo delivery interruption and impact on product blend
Business transformation and deferral of investment programmes Impacted stakeholders: A, B, C, D, E and F	Role reductions and change in day-to-day activities balanced by new decommissioning and/or other asset/office roles Lowering of production targets and reserves and resources; impacts on near-term cash flow and liquidity balanced with long-term reserve and resource maturation and development Decommissioning activities impacting production and cash flows Change in focus for supply chain and sector employment Changing focus for and timing of supply chain activities Impacts on the local economy
Environmental, Social and Governance ('ESG') strategy, and particularly committing to a 10% reduction in Scope 1 and 2 emissions over three years from a year-end 2020 baseline[1], with the achievement linked to reward Impacted stakeholders: A, B, C, D, E, F and G	Clear and transparent articulation of EnQuest's approach to ESG, demonstrating that its business model is the right one from a financial perspective, and that it makes a positive contribution to society by supporting government, regulators' and societies' goals and objectives in a prudent and economic manner, allowing informed decisions to be made by all stakeholders Commitment from the Group's workforce to ensure delivery of carbon reduction in the Group's existing operational portfolio Developing a carbon reduction strategy and incorporating a carbon price in our investment evaluations when considering potential acquisitions
Revised Company purpose Impacted stakeholders: A, B, C, D, E, F and G	Ensure there is a clear and transparent articulation of EnQuest's purpose that underpins delivery of the Group's strategy, goals and objectives to enable stakeholder groups to assess the alignment of interests and consequently impact on their likelihood of engagement with EnQuest Establishing workforce focus groups during the purpose development process to provide insight, review and challenge

Key performance indicators

A: HSEA
Group Lost Time Incident frequency rate[1]

−61.4%

2020	0.22
2019	0.57
2018	0.43

In occupational safety, Lost Time Incident ('LTI') performance was good, with many assets recording an LTI-free year.

D: EBITDA[2]
$ million

−45.3%

2020	550.6
2019	1,006.5
2018	716.3

Lower realised oil and gas prices, reflecting lower market prices, and production reduced EnQuest's EBITDA.

G: Net debt[2]
$ million

−9.4%

2020	1,279.7
2019	1,413.0
2018	1,774.5

Net debt decreased by 9.4% compared to 2019, with robust cash generation partially offset by interest on the Group's bonds being paid in kind. The Group has continued to voluntarily make early repayments of its senior credit facility.

B: Net production
Boepd

−13.8%

2020	59,116
2019	68,606
2018	55,447

Production was 13.8% lower than in 2019, primarily reflecting cessation of production at Heather/Broom, Thistle/Deveron and Alma/Galia, a safety-related shutdown at PM8/Seligi, absence of gas lift at the Dons and lower production at Magnus. Production from Kraken and Scolty/Crathes increased.

E: Cash generated by operations
$ million

−42.9%

2020	567.8
2019	994.6
2018	788.6

Cash generated by operations was 42.9% lower than in 2019, primarily reflecting lower EBITDA.

H: Net 2P reserves
MMboe

−11.3%

2020	189
2019	213
2018	245

Net 2P reserves decreased by 11.3% compared to 2019. During the year, the Group produced 10.1% of its year-end 2019 2P reserves base, with downward revisions at Thistle/Deveron and the Dons, reflecting cessation of production decisions at these fields, largely offset by other revisions and transfers from 2C resources.

C: Unit opex[2]
$/Boe

−26.2%

2020	15.2
2019	20.6
2018	23.0

Average unit operating costs were 26.2% lower than in 2019 ($20.6/Boe), primarily reflecting the Group's focus on cost control, including the decisions to cease production at Heather/Broom, Thistle/Deveron and Alma/Galia.

F: Cash capital[2] and abandonment expense
$ million

−30.4%

2020	173.0
2019	248.6
2018	230.2

Cash capital and abandonment expense was 30.4% lower than in 2019, primarily driven by a reduced drilling programme and lower prior period deferrals, partially offset by increased abandonment expense reflecting the cessation or production decisions at Heather/Broom, Thistle/Deveron and Alma/Galia.

I: Scope 1 and 2 emissions
tCO_2e

−11.2%

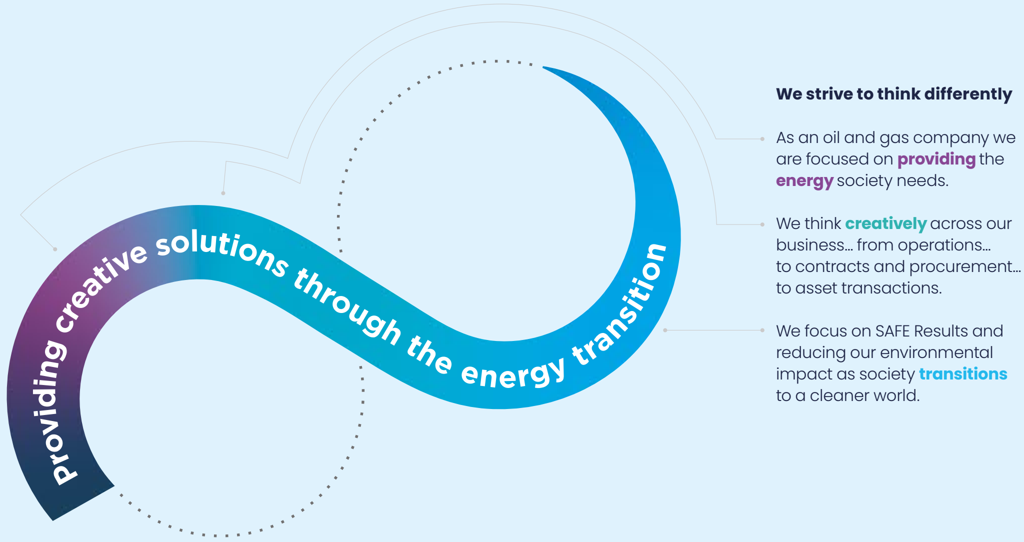
2020	1,342,765
2019	1,511,650
2018	1,802,435

Total CO_2e emissions were reduced by 11.2% compared to 2019 reflecting the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets.

Notes:
1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)
2 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176

Our purpose

Redefining our purpose



Re-examining the 'why'

EnQuest has always recognised the importance of positively contributing to society, understanding that a well-defined purpose should be a key part of defining a company's strategy as well as part of its environmental, social and governance ('ESG') plan and policy. The Group had previously defined and articulated its corporate purpose as part of the year-end 2018 annual reporting process. However, feedback from stakeholders indicated a need for a simpler and more easily understandable Company purpose with which stakeholders could more readily engage. EnQuest therefore looked to re-examine and restate its core purpose.

A collaborative approach

Led by a steering committee drawn from the Company's global leadership teams and members of the Executive Committee, the group brainstormed ideas and language that best expressed the response to the question 'why is EnQuest here?' The output was subsequently shared with different focus groups drawn from every level of the business and every geographic region, who fed back their response to the suggested language and what it meant to them. Using this input, the steering committee revised the materials, which were once again reviewed by the focus groups. Feedback received from these groups was presented to the Board along with a single proposed statement that best encapsulated EnQuest. This statement was reviewed and challenged by the Board, before reaching agreement on 'Providing creative solutions through the energy transition'.

Embedding our purpose

Upon approval, work began immediately to embed this purpose throughout the organisation. The statement was launched at our first virtual Global Town Hall in September 2020 by CEO Amjad Bseisu, accompanied by a series of short films illustrating the Group's purpose in action. A two-stage series of 'purposeful leadership' training courses were offered to management globally, and we have captured and promoted examples of creative solutions at work in the business through a variety of internal channels.

Our purpose in action

One example was the challenge offered by a group of engineers working with the Kraken asset on increasing the upper flow limit of the production flexible flow lines during well tests. By increasing the limit and without compromising safety or asset integrity, EnQuest can avoid the deferral of c.20kbbls of oil per year. In Malaysia, safety officers on PM8/Seligi successfully moved the location of the helicopter landing area to prevent the costly relocation of one of the platform's cranes, whose boom rest was infringing the safety zone.

Creative solutions are not simply related to engineering at EnQuest. Our Supply Chain team implemented a number of creative commercial models that focused on value driven reward and accelerated business activity.

A purposeful future

Providing creative solutions is what EnQuest focuses on across all its operations. This approach informs the Group on how to lower emissions from its existing asset base, as it looks to achieve a targeted 10% reduction over a three-year period. Through harnessing the creative energy from all its staff, offshore and onshore, technical specialists and generalists alike, the Group will deliver world class decommissioning, safely and at the lowest possible cost, while continuing to drive the lowest possible emissions. EnQuest is keen to play an integral part in the energy transition and the new purpose statement will inform decision making on its daily operations, at all its assets, in each and every region in which it operates.

Values
These Are What Connect Us

Our Values

Our Values embody everything the Company stands for and our Company purpose is intrinsically linked with our Values.

Safety sits at the core of everything we do as we aim for SAFE Results with no harm to our people and respect for the environment. We conduct our business and our relationships with respect and openness, ensuring a diverse range of ideas are shared and considered. We work collaboratively to achieve exceptional results, driving a focused business to achieve success, always pursuing growth and learning opportunities to unlock our full potential as individuals, teams and the Company as a whole.

Protecting our people

People are our most important asset

Oil and gas is recognised as a key industry. As such it was vital that EnQuest moved swiftly to keep its people safe to ensure operations could continue.

3
'COVID choppers' available in the UK

7
Manned UK facilities with testing capabilities available onsite

Responding to the challenges of COVID-19
A multi-discipline, Group-wide COVID-19 support group was established to share information, coordinate efforts and follow best practice and government and industry policy in the developing crisis. The Group developed information and processes for employees and contractors aligned with the prevailing expert advice and level of risk, covering pre-mobilisation and mobilisation to EnQuest's sites and any onsite response to possible COVID-19 cases, including:

- Issuing Letters of Authority to enable personnel to travel for work in the UK and Malaysia whilst strict lockdown/movement control order measures were in place;
- Adhering to new Malaysian government regulations with respect to quarantining and swab testing of personnel prior to offshore mobilisation and post de-mobilisation, and more recently further COVID-19 testing protocols;
- Implementing a testing regime for all staff and contractors on every EnQuest asset in the UK, and subsequently point of care testing at all its facilities in the North Sea and Shetland Islands, so that any employee can be tested at each of those locations; and
- Establishing and adopting protocols, in collaboration with Public Health Scotland, Oil and Gas UK ('OGUK') and UK helicopter operators, for any required return of personnel from offshore facilities back onshore. The Group was one of the first participants in a shared 'COVID chopper' scheme with other industry operators and helicopter transport providers in the North Sea.

Resilience planning was implemented to mitigate the impact of any COVID-19 cases on the assets, particularly for personnel in critical roles. EnQuest altered work programmes to focus on safety-critical activities, reducing personnel levels across all its assets, avoiding multiple cabin occupancy as far as practicable and introducing social distancing and hand sanitisation measures in every facility.

EnQuest also worked closely with the UK oil and gas industry as an active participant in the OGUK Pandemic Steering Group.

The Company participated in the Testing subgroup to share best practice and learnings, worked to develop new guidance around safety practices for offshore workers and to clarify with the Scottish Government and health agencies the changes in rules and regulations as they applied to key workers in the oil and gas industry throughout the year. Indeed, in early 2021 EnQuest introduced further segregation associated with flights to and from Sumburgh airport and the mandatory wearing of face coverings outside of cabins and in communal areas for the duration of the time offshore.

Our offices
During the global pandemic, EnQuest also adapted to the needs of onshore staff. Very swiftly, we moved to remote working for many of our employees. In all locations, employees were offered practical support and equipment in setting up 'home offices', with our people embracing technology solutions to ensure they remained connected to colleagues.

A number of surveys were undertaken so the leadership teams could understand how our people were adapting to remote working and identify other support measures that could be put in place.

Employees were given free access to a third-party mobile application and access to fitness and exercise classes and competitions to help with their physical and mental wellbeing as they adapted to new ways of working and living, while flexible working arrangements were encouraged.

Risk assessments and corresponding protocols were also put in place to enable individuals to return to part-time office working if they wished to do so, subject to relevant and legal government guidelines.

In the UK and Malaysia, studies have been undertaken on attitudes to returning to work in our offices, and EnQuest is continuing to make preparations for that eventuality, adapting to meet the wishes and expectations of our workforce, today and in the future.

Focused on SAFE Results

> We have emerged from the rigours of 2020 both fitter and leaner and are poised to take advantage of the inevitable opportunities the sector will offer up.

Martin Houston
Chairman

Overview

2020 has been a year of enormous challenges for all of us. The COVID-19 pandemic caused an evisceration of global oil demand which in turn triggered an oil price collapse, which touched c.$9/bbl in April 2020. This, and the ensuing global economic crisis, required a rapid and profound response from EnQuest on many fronts. I am proud that we reacted quickly and decisively to ensure the safety of our people, whilst at the same time transforming the Company.

Given the prevailing economics, we needed to cease production from a number of our North Sea assets. This allowed us to lower our cost base and re-focus the organisation onto the highest value assets, allowing the Company to generate enough free cash flow to maintain sufficient liquidity and to further reduce its debt. We are a fitter and leaner Company and we have entered 2021 in a better position than we began 2020.

While these changes were necessary, it was difficult to take these decisions knowing they would lead to a significant reduction in the size of our UK workforce. However, our people continued to demonstrate the highest levels of commitment, embracing the new COVID-related processes and procedures to keep themselves and their colleagues safe and our assets operational. I'd like to take this opportunity to sincerely thank everyone for all of their efforts and hard work this year.

The combination of events in 2020 also contributed to an increase in the demands of our stakeholders and regulators around a number of issues that impact our Company. These include lowering our carbon footprint and increasing the diversity of our workforce and our Board. Both of these have been priorities for the Board this year and whilst I am pleased with progress, we still have much to do.

A refreshed purpose

Early in 2020, the Group embarked on a process to refresh its purpose, with the aims of strengthening and simplifying it for all our stakeholders. I like what has been produced. It recognises our contribution to the world in which we operate and is intimately linked with our Values. Our mature asset business model requires us to think differently and to be creative right across our business – from operations, to contracts and procurement, to asset transactions, and how we create a great working environment for our most important asset, our people. It also recognises that we must play our part in the wider, multi-decade energy transition with emissions reductions and decarbonisation as a core focus area for participants in the oil and gas industry.

Committed to getting safety and asset integrity right

At EnQuest, the safety of our people and assets remains our number one priority. Whilst day-to-day health and safety performance improved throughout 2020, this was overshadowed by a number of asset integrity issues.

In Malaysia, a detached riser at the Seligi Alpha platform, which provides gas lift and injection to the Seligi Bravo platform, resulted in a release of gas and a subsequent fire which initiated an automatic emergency shutdown of the PM8/Seligi field. A full investigation was instigated to understand the root cause of the detachment, identifying a micro internal crack which in combination with fatigue due to cyclic loading, caused premature failure. At the Sullom Voe Terminal, we have witnessed a number of issues around pipeline integrity since taking over operatorship. These incidents, combined with the small fire in one of the compressor modules at Heather in 2019, have led us to review our approach to asset integrity through a Group-wide review supported by independent parties. Through this, we will review in detail the integrity management system across the Company and at an asset level to identify strengths and opportunities to improve the way we manage our major accident hazards from a people, process and plant perspective.

Lowering our carbon footprint
We take our environmental responsibilities seriously and have set a target of reducing absolute Scope 1 and 2 emissions from our existing portfolio of assets by 10% over a three-year period from the start of 2021. We have linked this target to reward as a key performance metric in the Group's long-term incentive scheme for Executive Directors and applicable employees. We view our role as actively reducing emissions across assets and transitioning them ultimately through to decommissioning. Our goal as a Board is to be as ambitious as we can in setting decarbonisation targets, whilst balancing the economic realities of operating late life assets.

Becoming more diverse
Diversity is a key focus area for the Group. We recognise that delivering exceptional performance is more likely if we include differing perspectives to enhance our knowledge and improve decision making. This is as true at the Board level as it is through the organisation. Following the Board changes outlined below, we currently have 22% female Board representation, while our management team is working hard on new initiatives in this area with a strong desire to make EnQuest a more diverse and inclusive Company, reflecting the demographics in which we operate. This will not be easy, but we are fully committed to the task.

Governing well
It is important that we continue to strengthen our governance framework. For many years, we have had a Code of Conduct that sets out the behaviour which the organisation expects of its Directors, managers and employees. Our Code of Conduct also extends to our expectations from our suppliers, contractors, agents and partners. We fully comply with the UK Corporate Governance Code and have a robust risk management framework which enables us to identify and mitigate principal and emerging risks.

Board and Committee evolution
Environmental, Social and Governance ('ESG') considerations continue to grow in importance for all companies. To reflect the Board's commitment to ESG matters, we agreed to strengthen the remits of the current Board-level Committees to ensure that our ESG performance is aligned with EnQuest's purpose and appropriately responds to the expectations of our stakeholders. You can read more on these changes in the Governance and Nomination Committee's report in the governance section of this Annual Report and Accounts.

We also had a number of Board changes through the year. In March 2020, Howard Paver succeeded Helmut Langanger as our Senior Independent Director ('SID'), with Helmut stepping down from the Board after serving for ten years, and in May 2020, he succeeded Laurie Fitch as the Chair of the Remuneration and Social Responsibility Committee. In December, Laurie decided to step down from the Board upon expiry of her letter of appointment on 8 January 2021. On behalf of the Board, I would like to thank Helmut for his unstinting support to the Company. With his comprehensive technical knowledge and various Board Committee memberships, Helmut played a significant role in the development of EnQuest PLC. Similarly, I would like to thank Laurie most sincerely on behalf of the Board for her valuable contribution during her time with EnQuest. In particular, her work with the Employee Forum and on the broad ESG agenda across the Company has been extremely helpful.

In November, the Board appointed Farina Khan, formerly chief financial officer of PETRONAS Chemical Group Berhad, as a Non-Executive Director. On joining the Board, Farina became a member of the Audit Committee and the Safety, Climate and Risk Committee. In early 2021, Farina also became a member of the Remuneration and Social Responsibility Committee.

In February 2021, Liv Monica Stubholt was appointed to the Board and joined the Audit Committee and the Safety, Climate and Risk Committee. Liv Monica is a corporate lawyer and has extensive experience in the energy industry and across public policy and governance following a career in both the public and private sectors. I am delighted Farina and Liv Monica have agreed to join our Board and I am looking forward to working with them both.

Looking ahead
Keeping our people safe and improving our asset integrity performance remains our priority. We will focus on what is in our control to deliver on the operational and financial targets we have set ourselves. Achieving our emissions reduction target will need our people to be creative, embracing different ideas as we challenge our existing ways of working to identify and implement reductions.

Having transformed the business in 2020, we have made good progress on adding value through acquisitions in the first quarter of 2021. In February 2021, we agreed to acquire a non-operating interest in the producing Golden Eagle area in the UK North Sea which is expected to add material free cash flow which is sheltered by the Group's tax assets. It is also expected to add around 23 MMbbls of reserves and resources, with further infill well potential. The acquisition of an operating interest in Bressay, which completed in January 2021, provides further material 2C resources for future evaluation and development to those we already have at Magnus, Kraken and PM8/Seligi. We continue to look at acquisition opportunities, taking our time to find the right ones that fit our portfolio and capabilities at the right price. I am confident we are very well placed to succeed in what is undoubtedly a fast-changing world.

Martin Houston
Chairman

A transformed company

> "Our quick and decisive actions in early 2020 have transformed us to a lower cost base and free cash flow breakeven.
>
> **Amjad Bseisu**
> Chief Executive

Overview

2020 presented the Group with a unique set of challenges through the combination of the oil price collapse of March 2020, the COVID-19 pandemic and the resulting crash in the global financial markets, which we have managed successfully. As always, the safety of EnQuest's people and assets remained an absolute priority. The Group minimised successfully the impact of COVID-19 on its workforce and operations, by supplementing its existing communicable disease processes and introducing a number of new protocols in both the pre-mobilisation and onsite management processes. The difficult but decisive action taken in response to the macroeconomic environment saw the cessation of production at a number of the Group's assets, a reduction in the number of employee and contractor roles in the UK and the reorganisation of the UK North Sea business into three directorates: UK Upstream; UK Midstream; and UK Decommissioning. These actions have transformed the business, materially lowering the Group's cost base and enabling the directorates to focus on the most appropriate activities that deliver operational excellence and SAFE Results at each of their assets.

As we transformed our business and lowered our cost base, we have maintained our focus on health and safety, recognising this is our licence to operate. Given the riser incident in Malaysia, we have also initiated a Company-wide asset integrity review and are developing fit-for-purpose safety systems for late life assets.

As an established oil and gas company, EnQuest has always aimed to safely improve the operating, financial and environmental performance of assets for the benefit of its stakeholders. However, over the last few years, and in 2020 in particular, Environmental, Social and Governance ('ESG') factors have continued to grow in importance for companies. As such, the Group undertook a review of the ESG landscape in order to identify those ESG factors which are relevant and applicable to its business model, to ensure its approach was appropriate and easily understood by its stakeholders.

Throughout the year, the Group's operational focus was to maintain strong production efficiency across its asset base and successfully execute the drilling programmes at Magnus and Kraken. The combined impact of good operational delivery and the successful transformation of the UK business enabled the Group to lower its unit operating expense to c.$15.2/Boe, reduce its free cash flow breakeven[1] to c.$31.9/Boe and generate $211.1 million in free cash flow, enabling further reductions in the Group's debt.

Operational performance

EnQuest's average production decreased by 13.8% to 59,116 Boepd, slightly below the mid-point of the Group's guidance. The decrease was primarily driven by the Group's decision to cease production at its highest cost assets: Heather/Broom; Thistle/Deveron; and Alma/Galia, and the impact of the detached riser in Malaysia.

Kraken continued to perform well, delivering high production efficiency of 87% and gross production of 37,518 Bopd, above the top end of its guidance range. Overall subsurface and well performance was good and production optimisation activities continued through improved injector-producer well management. By the end of 2020, more than 40 MMbbls (gross) had been produced since first oil, a great achievement by the combined EnQuest and Bumi Armada team. Production at Magnus also remained robust, delivering 17,416 Boepd reflecting the contribution of the two new wells coming onstream in March, partially offset by gas compressor and seawater lift pump system availability. Production at PM8/Seligi was lower than the prior year reflecting the impact of a detached riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform.

Production vs 2019
Boepd

−14%

EBITDA vs 2019
$ million

−45%

Free cash flow breakeven[1] vs 2019
$/Boe

−35%

1 Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production

This resulted in a release of gas which initiated an automatic emergency shutdown of the PM8/Seligi field. The Group's safety systems and emergency response procedures were successfully implemented, with all personnel on board mustered safely within minutes. Following an initial investigation and safety assessment, partial operations were able to be recommenced within two days, although production remained low throughout the fourth quarter.

At Heather and Thistle/Deveron, cessation of production ('CoP') applications were approved, with decommissioning activities commencing in preparation of the well abandonment programmes planned for 2021. At Alma/Galia, CoP occurred on 30 June 2020 as planned, with the EnQuest Producer floating production, storage and offloading vessel moving off station shortly thereafter and transferred to the oil terminal jetty at Nigg.

During the year, the Group produced 10.1% of its year-end 2019 2P reserves base, which overall reduced to 189 MMboe at the end of 2020, down 11.3% on the 213 MMboe at the end of 2019. Following the agreement to acquire 40.81% equity and operatorship of the Bressay field in the UK, the Group's 2C resources increased by 61.3% from the end of 2019 to around 279 MMboe. Other material 2C resources are located at Magnus and Kraken in the UK and PM8/Seligi and PM409, offshore Malaysia. In February, the Group agreed to acquire Suncor's entire 26.69% non-operating interest in the Golden Eagle area. Upon completion, expected before the end of the third quarter 2021, this is expected to add around 23 MMbbls to reserves and resources.

Financial performance
The Group's EBITDA decreased by 45.3% to $550.6 million, reflecting the material decrease in realised oil and gas prices and lower production, partially offset by the Group's transformation and ongoing focus on cost control, which drove operating expenditure down by $189.5 million to $328.6 million, with unit operating costs reduced to around $15.2/Boe. Cash generated by operations decreased to $567.8 million, down 42.9% compared to 2019, with free cash flow generation of $211.1 million.

This strong cash flow performance in difficult macroeconomic conditions facilitated a material reduction in the Group's net debt, which ended the year at $1,279.7 million, down $133.3 million from the end of 2019. Voluntary early repayments of the Group's senior credit facility, including a further $25.0 million in January 2021, has seen the outstanding balance reduce to $352.3 million (including payment in kind) with no further amortisations due ahead of the final maturity in October 2021. The strong performance at Kraken has also driven a $55.2 million reduction in the Sculptor Capital facility.

At the year end, the Group recognised non-cash post-tax impairments of $259.2 million, mainly reflecting lower oil price assumptions and non-cash de-recognition of undiscounted deferred tax assets of $3671.1 million.

Environmental, Social and Governance

Environmental

Emissions performance is an area of great importance to EnQuest as a responsible operator of oil and gas assets through the multi-decade energy transition, aiming to extend production lives safely, enhance cash flow profiles and reduce costs and emissions on mature assets, as society's reliance on hydrocarbons is reduced, thereby contributing towards the achievement of national emissions targets. The Group's absolute Scope 1 and 2 emissions were 11.2% lower in 2020 compared to 2019, primarily reflecting the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets. The Group has also set itself a challenging target to deliver a further reduction in Scope 1 and 2 emissions of c.10% over the next three years from its

Scope 1 and 2 greenhouse gas emissions vs 2019
tonnes CO_2 equivalent

−11%

Group Lost Time Incident frequency[1] vs 2019

−61%

existing portfolio through the identification and implementation of economic emission reduction opportunities, with the achievement of this target linked to reward. Emission reduction is also part of the acquisition review process, with a carbon price built into economic evaluation. The Group continues to optimise sales of Kraken cargoes directly to the shipping fuel market, avoiding emissions related to refining and helping reduce sulphur emissions in accordance with the IMO 2020 regulations (see the Environment section on pages 34 to 37 for more information).

Social – Health and safety

EnQuest's absolute priority has consistently been SAFE Results, no harm to our people and respect for the environment. During 2020, an independent review of the safety culture provided positive feedback on the strong commitment to safety throughout EnQuest, with well-motivated and informed people supported by robust processes. This culture was clearly evidenced as the Company successfully implemented a number of mitigations to minimise the impact of COVID-19 on its people and operations. Despite the necessary disruption caused by the Group's enhanced procedures and protocols, the Group achieved: a Lost Time Incident frequency rate of just 0.22, 61% lower than 2019 and well below the UK Continental Shelf benchmark of 1.28; a 79% reduction in safety-critical repair orders; and a reduction in reportable hydrocarbon releases. However, challenges were experienced with pipeline integrity at the Sullom Voe Terminal in the UK and the detached riser on PM8/Seligi in Malaysia. EnQuest is committed to continuous improvement in asset integrity and, with the support of third parties to give an independent viewpoint, there is an ongoing review to identify strengths and opportunities in the Group's integrity management system.

Alongside the ongoing focus on physical safety, the Group offered additional support that focused on the welfare of its employees' mental health and wellbeing throughout the year, recognising the impact the global pandemic and the business transformation had on EnQuest's people. The workforce was provided with access to a number of services and a wide variety of challenges, competitions and communications to help keep people connected.

Social – People

The Group remains committed to improving workforce diversity and inclusion ('D&I'), and there was a renewed examination of the Company's approach during this period of intense change. A Company-wide D&I strategy, aligned to its updated D&I policy, was developed aimed at building awareness by providing education and understanding throughout the workforce. EnQuest also continued to support International Women in Engineering Day and the UK's AXIS Network. During 2021, enhanced diversity balance will continue to be a core driver of the Group's recruitment, employment and training policies and how it attracts, retains and develops a wide range of talent in the organisation. At present, 19% of EnQuest's leadership teams are female and 43% are from diverse ethnic backgrounds. The Group is committed to improving diversity further and an employee-led global community was established to explore and promote a greater sense of connectedness and celebration of difference at EnQuest. The 'EnQlusion' committee has already hosted a talk from the Association for Black and Minority Ethnic Engineers and continues to work on ways to develop a more diverse and inclusive workplace.

Social – Communities

EnQuest has also continued to provide support to the communities in which it works. In Malaysia, EnQuest is sponsoring two university students to study STEM-related subjects at University Malaya and Universiti Teknologi Malaysia and has also signed a Memorandum of Agreement to sponsor the 'IChemE' accreditation of the Chemical Engineering programme at The National University of Malaysia. The Group continues to provide financial support to a local school and other charitable organisations. In the UK, local community support included financial contributions to charitable organisations throughout the year, with donations of excess personal protective equipment from offshore to Shetland NHS and a local care home in Aberdeen and the redeployment of frozen meals to an Aberdeenshire food bank during the COVID-19 pandemic.

1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)

> Looking forward, EnQuest is well placed to succeed in a changing world.
>
> **Amjad Bseisu**
> Chief Executive

2021 performance and outlook
In February, EnQuest signed an agreement to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields for an initial consideration of $325 million. Upon completion, the acquisition will add immediate material low-cost production and cash flow to EnQuest and will allow the Group to accelerate the use of its tax losses. EnQuest plans to finance the transaction through a combination of a new secured debt facility, interim period post-tax cash flows between the economic effective date of 1 January 2021 and completion, and an equity raise. It is anticipated the new secured debt facility will incorporate the refinancing of the existing outstanding senior credit facility.

Production performance to the end of February has been slightly behind schedule. An unplanned third-party outage, power-related failures and ongoing well repair activities at Magnus, along with short duration shutdowns at Kraken for tether inspections and repairs, have been partially offset by PM8/Seligi wells coming back online ahead of schedule. Repairs are now complete on the Kraken tethers and Magnus power systems. In addition, a successful Magnus well intervention and early commissioning of gas lift at Kittiwake have further increased production from the end of February.

For the full year, the Group's net production is expected to be between 46,000 and 52,000 Boepd (excluding any contribution from the proposed Golden Eagle transaction) and includes the cessation of production at the Dons which occurred as planned in the first quarter, continued low production at PM8/Seligi until repairs on the riser are completed during the second half of the year and natural declines across the portfolio. Kraken gross production is expected to be between 30,000 and 35,000 Bopd (21,150 and 24,675 Bopd net), reflecting natural declines.

The Group continues to focus on cost control and capital discipline, with operating expenditures expected to be approximately $265 million and combined cash capital and abandonment expenditure is expected to be around $120 million, all of which are lower than 2020. Capital expenditure primarily relates to licence to operate activities and abandonment expense primarily reflects decommissioning programmes at Heather/Broom, including an acceleration of some work scopes, the Thistle/Deveron fields and the Dons.

Longer-term development

EnQuest has been transformed in 2020 with a focused portfolio and a materially lower cost base. The Group has c.279 MMboe of net 2C resources, primarily located at Bressay, Magnus and Kraken in the UK and PM8/Seligi and PM409 in Malaysia. The completion of the Bressay acquisition provides EnQuest with a further opportunity to demonstrate its proven capabilities in low-cost drilling, near-field and heavy oil development. The low-cost Golden Eagle field will provide incremental production, reserves and resources, with a number of unsanctioned activities associated with further sub-sea and platform infill drilling, topsides water debottlenecking and an active well intervention programme being assessed. With a focus on short-cycle projects, EnQuest is able to adjust its capital allocation decisions to match the prevailing oil demand and price environment, balancing debt reduction, the development of its existing portfolio, the acquisition of suitable growth opportunities and returns to shareholders.

EnQuest successfully managed the unique set of challenges presented in 2020, taking decisive action to protect and enhance the business. The focus on extending the useful lives of existing assets through operational improvements and reducing emissions is well suited to operating through the energy transition, meaning EnQuest is well placed to succeed in a changing world.

Amjad Bseisu
Chief Executive

Transforming our business

As many countries entered lockdown in March 2020 in an attempt to mitigate the impact of the global pandemic, EnQuest faced a triple threat: COVID-19, the corresponding global economic crisis and a collapse in the oil price.

A re-focused UK organisation
EnQuest moved swiftly to become resilient and succeed in a low-oil price environment, restructuring and transforming its business in response to these challenges. These were not decisions the Board and senior management took lightly, understanding there would be differing implications for a number of its stakeholders, primarily its employees, contractors and joint venture partners.

Transformation 2020
The crisis meant that after a decade of continuous production, EnQuest's original assets, including Heather and Thistle/Deveron, entered the decommissioning phase of their life-cycle. With these decisions, alongside the previous decision to cease production at the Alma/Galia fields, a reorganisation was required to match the Group's activity set. The programme to accomplish this was entitled Transformation 2020 ('T2020').

The Group took the decision to reorganise its UK North Sea business into three directorates: Upstream; Midstream; and Decommissioning, see pages 19 to 22 for further details, to ensure each of these directorates focus on the most appropriate activities that deliver operational excellence and SAFE Results at each of its assets.

An open, fair and transparent process
With the changing operational footprint of the Group, support functions were also reviewed. Given the scale of change, with the number of employee and contractor roles in the UK reduced by approximately 40%, EnQuest did not apply for relief under the UK government's 'furlough scheme'. Instead, the UK workforce underwent an eight-week open and transparent collective consultation process to ensure all employees were treated fairly and with respect. This consultation process included the appointment of employee representatives to work with management to ensure the proposed changes did not compromise safety and to minimise the impact on the Group's people and operations. All employees at EnQuest were given the opportunity to nominate themselves for relevant roles within the new organisation structure and where possible, employees were redeployed to other assets or brought into office-based roles onshore. Employee representative feedback was positive regarding the high level of engagement, which enabled them to contribute to and improve the process.

Ensuring safe and continuous operations
In support of these changes and to ensure seamless business continuity, a comprehensive Management of Change ('MOC') programme was introduced across the UK business alongside a thorough review of our Business Management System ('BMS'). Importantly, asset and functional employees were appointed as MOC leads to work with their teams to construct the MOCs, ensuring high levels of engagement and thoroughness through the process. This positive and collaborative engagement supported a successful implementation programme. More than 150 MOC actions were successfully closed out and signed off in September, and the BMS review facilitated the removal of more than a thousand surplus documents. A post-implementation monitoring phase for the project was established, with reviews undertaken between November 2020 and January 2021, ensuring satisfactory alignment with the North Sea assurance and audit plan.

The successful conclusion of the T2020 programme has made EnQuest not only more resilient but also ready to succeed in a changing world, with unit operating costs and free cash flow breakeven[1] for the Group significantly reduced by 26.2% and 35.2%, respectively, from 2019.

–26%
Unit opex ($/Boe)

–35%
Free cash flow breakeven ($/Boe)[1]

1 Based on the Group's aggregate cash outflows prior to any debt repayments and $37.3 million of Magnus-related third-party gas purchases divided by net working interest production

Becoming a low-cost operator

Transformation 2020

Reorganisation completed
- T2020 followed decisions to progress CoP at the Heather, Thistle and the Dons assets
- Created three UK operating directorates supported by functional teams:
  - Upstream: Magnus, Kraken, GKA, Scolty/Crathes and Alba
  - Midstream: Sullom Voe Terminal and pipelines
  - Decommissioning: Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons

Enables directorates to deliver operational excellence and SAFE Results
- Upstream: Safely drive exceptional performance from reservoir to point of sale, providing the foundation for the Group to grow in any oil price environment
- Midstream: Preserve top quartile service delivery through high-quality people, safely optimising service costs, developing offerings to retain and win new business
- Decommissioning: Focus on delivering world class decommissioning, safely, at the lowest possible cost

Operating review

> A strong Kraken performance, reflecting improved FPSO uptime and good subsurface and well performance, continued to drive production in the Upstream business.

Bob Davenport
Managing Director – North Sea

Our operations

EnQuest's portfolio is currently focused on maturing and underdeveloped assets in the UK and Malaysia which offer organic growth opportunities. We have a strong track record of improving the performance and extending the economic lives of assets within our portfolio. Our capabilities have delivered material growth in production and reserves since the Company's creation in 2010.

UK Upstream operations[1]

Daily average net production:
Boepd

50,334
2020

49,083
2019

2020 performance summary

Production of 50,334 Boepd was 2.5% higher than in 2019, reflecting strong performances at Kraken and Scolty/Crathes, partially offset by lower than expected performance at Magnus and natural declines across the Upstream portfolio.

Magnus

2020 performance summary

Production of 17,416 Boepd was 4.7% lower than in 2019. Performance was impacted by gas compressor and seawater lift pump availability and natural declines. Offsetting this was the contribution from two new wells, which came onstream in the first quarter combined with good production and water injection efficiency, both of which averaged c.80%.

During the year the Group continued to focus on activities to improve production, including well interventions, reservoir management and gas compression optimisation, in addition to successfully completing a planned maintenance shutdown in October.

2021 performance and outlook

Average production in the first two months of 2021 was 13,770 Boepd, impacted by an unplanned third-party outage and power failures, which have now been resolved.

Looking ahead, shutdowns with a duration equivalent of around two weeks are planned over the summer to undertake essential maintenance work, while further production enhancement activities will continue to be assessed and implemented throughout the year.

Preparatory works will be undertaken in 2021 ahead of the planned development drilling programme in 2022. In addition, following the award of block 211/12b as part of the 32nd licensing round, the Group will commence subsurface studies to assess the block for future opportunities. With 2C resources of c.35 MMboe, Magnus offers the Group significant low-cost drilling opportunities in the medium term, in addition to an estimated c.250 MMbbls of remaining mobile oil in place that requires further evaluation to identify future drilling and tie-back prospects.

Kraken

2020 performance summary

Average gross production was 37,518 Bopd, 5.1% higher than in 2019 and ahead of the top end of the Group's 2020 guidance range of 30,000 to 35,000 Bopd (gross) (21,150 and 24,675 Bopd net). Production efficiency of 87% and water injection efficiency of 91% remained strong with the FPSO vessel performing well throughout the year. During the third quarter, the Group successfully completed the planned shutdown to undertake essential maintenance work, although unplanned repairs were required to the DC1 riser in the fourth quarter which resulted in two producer wells being shut in for approximately two weeks.

Overall subsurface and well performance has been good, with water cut evolution remaining stable. The Group has continued to focus on optimising production through improved producer-injector well management, incorporating the results of regular well testing programmes. In addition, drilling at Worcester was concluded in the first half of the year with a new producer-injector pair coming onstream late in the second quarter.

1 Includes Magnus, Kraken, Scolty/Crathes, the Greater Kittiwake Area and Alba

Since the delivery of first oil in June 2017, gross output has significantly increased from 7.7 MMbbls in the first 12 months of operation to over 13.7 MMbbls for the full year 2020. This equates to over 40 million barrels produced since inception.

Due to its low sulphur content, the Group is able to optimise Kraken cargo sales into the shipping fuel market with Kraken oil a key component of IMO 2020 compliant low-sulphur fuel oil. As such, the Group benefits from strong pricing in the market and avoids refining-related emissions (see page 36).

2021 performance and outlook

Average gross production of 33,723 Bopd for the first two months of 2021 is in line with guidance and cargoes have continued to be sold at a premium to Brent.

A very short shutdown was undertaken during the first quarter to complete a riser tether repair, while over the summer, a further short shutdown is being reviewed to undertake essential maintenance work.

The Group is not currently planning to return to drilling until 2023. However, the Group plans to carry out a 3D seismic campaign in the second half of 2021 to support ongoing evaluation work to identify and prioritise near-field drilling and sub-sea tie-back opportunities within the Pembroke, Antrim and Maureen sands discoveries and prospects in the western area, which holds an estimated 70–130 MMbbls of STOIIP.

The Group expects Kraken production to be between 30,000 Bopd and 35,000 Bopd (21,250 and 24,675 Bopd net) in 2021.

Other Upstream assets

2020 performance summary

Production of 6,468 Boepd was 14.6% higher than in 2019, driven by a strong performance at Scolty/Crathes following the completion of the pipeline replacement project in the third quarter of 2019. Both the Scolty and Crathes wells have been performing well, with optimisation activities continuing to partly mitigate expected natural declines. This strong performance was partially offset by lower production elsewhere in the Greater Kittiwake Area ('GKA'), primarily as a result of a failure of an umbilical providing power to the Mallard and Gadwall wells impacting production, along with underlying natural declines.

Given the COVID-19 pandemic, the four-week Forties Pipeline System ('FPS') planned shutdown was deferred to 2021. Instead, a short planned shutdown was completed in the third quarter to undertake essential maintenance work.

At Alba, performance continued in line with the Group's expectations.

2021 performance and outlook

Aggregate production to the end of February was 3,821 Boepd.

At Scolty/Crathes, gas lift was introduced late in the first quarter to support production, while at GKA, a return to normal production levels is expected during the second half of the year, following the reinstatement of power to the Mallard and Gadwall wells. A planned four-week shutdown is expected to be undertaken during the second quarter, in line with the Forties Pipeline System shutdown deferred from 2020.

In January, the Group announced the Bressay transaction had been successfully completed. This acquisition provides the Group with the opportunity to develop around 115 MMbbls (net) 2C resources, offering a long-term, low-risk production opportunity that has similarities to the Group's Kraken field. Under the agreement, EnQuest has assumed operatorship of the licences with a participating interest of 40.81% for an initial consideration of £2.2 million, payable as a carry against 50% of Equinor's net share of costs from the point EnQuest assumed operatorship. During 2021, detailed analysis of existing reservoir data and an assessment of potential development options will be undertaken.

UK Midstream operations[1]

2020 performance summary
The Group's delivery infrastructure in the UK North Sea is, to a significant extent, dependent on the SVT and its associated pipelines. With safe and reliable performance continuing at SVT, the Group has been able to maintain 100% service availability at the terminal.

During the second quarter, a major milestone was achieved in bringing Jetty 3 back into operation after almost seven years, with safe operations maintained throughout project delivery. The re-introduction of operations at the jetty provides the Group with additional capacity which helps to ensure greater service availability for customers. Following this increased capacity, the Group was pleased to welcome the Very Large Crude Carrier ('VLCC') 'Front Endurance' to the terminal to load a cargo of c.1.8 MMbbls of Brent oil, the first VLCC to visit SVT since 2010.

Since taking over operatorship at SVT, the Group has worked in close collaboration with all its stakeholders to optimise safely and sustainably the size and scale of plant required to ensure the terminal continues to meet existing and future customer needs. This focus has driven base operating expenditure reductions of around one-third, through progressively reducing the physical infrastructure in place, with the efficiency programme continuing to progress in line with expectations.

In pipelines, good progress has been made undertaking planned repairs and remediation work on delivery infrastructure to ensure continued smooth operations. The Group also successfully completed planned shutdowns on the Ninian Pipeline System and connected sub-sea network.

2021 performance and outlook
It has been a good start to the year, with stable operations and plant availability continuing at SVT and the associated pipeline infrastructure.

In March, the Group was pleased to receive confirmation that negotiations with BP for the long-term export solution for the Clair Development would continue.

During 2021, planned maintenance is scheduled to be undertaken on Jetty 2 which, once completed, will improve the service offering to customers. The Group also expects to undertake a number of planned maintenance inspections on the Northern Leg Gas pipeline.

The Group is continuing to evaluate its options at SVT to optimise and accelerate its drive to deliver further efficiencies, including emissions reductions. EnQuest is focused on maintaining safe and reliable operations at the terminal while transforming its operations to ensure it has the right service footprint in place to deliver a competitive, cost-effective and reliable service to existing and future users.

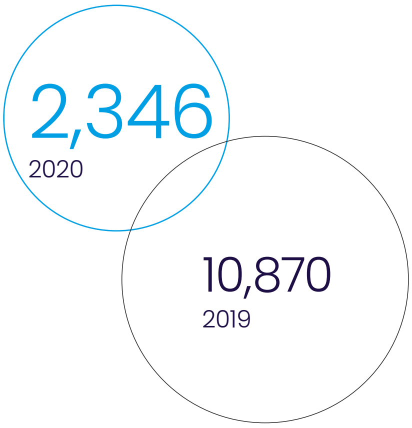
The strategic importance and geographical positioning of SVT has enabled EnQuest to participate in Project Orion, an initiative being developed by the Shetland Islands Council and the Oil and Gas Technology Centre aiming to deliver a clean, sustainable energy future for Shetland and the UK.

1 Includes the Sullom Voe Terminal, the Ninian Pipeline System and the Northern Leg Gas Pipeline

100%
SVT service availability

UK Decommissioning[1]

Daily average net production:
Boepd



2020 performance summary

Average production of 2,346 Boepd was 78.4% lower than in 2019, primarily reflecting the decisions to cease production at the Heather/Broom and Thistle/Deveron fields, which during 2019 contributed c.6,000 Boepd. At the Dons, production was impacted by a lack of gas lift which was no longer available from Thistle, combined with underlying natural declines. As such, preparations commenced for the field to cease production during the first quarter of 2021. As planned, Alma/Galia ceased production in June 2020, with the EnQuest Producer FPSO moving off station in September and sailing to the oil terminal jetty at Nigg, where the Group continues to evaluate options for its future.

The cessation of production ('CoP') application at Heather was accepted by the regulator in June, reducing EnQuest's share of costs from 100% to 37.5% and allowing decommissioning to commence. The platform remained shut in and depressurised all year, with front end engineering activities being undertaken ahead of the resumption of the well abandonment programme in 2021. At Broom, the application for CoP has been submitted to the regulators and approval is expected shortly.

At the Thistle platform, project activities related to the successful removal of the redundant crude oil storage tanks were concluded over the summer. In June, the CoP application for Thistle/Deveron was accepted, resulting in EnQuest's share of post-tax costs reducing from 99% to 6.1% and allowing for the decommissioning phase to begin. The facility remained unmanned all year, although preservation visits to the Thistle platform took place as part of the preparatory works ahead of the planned 2021 well abandonment programme.

2021 performance and outlook

As expected, the Dons ceased production in early 2021 following the receipt of necessary partner and regulatory approvals in respect of CoP. The Northern Producer floating production facility is being used for initial decommissioning activities, such as flushing of the sub-sea infrastructure and to support implementation of effective well isolations. Once these activities have been completed, anticipated early in the second quarter, the vessel will depart the field and be handed back to the owner.

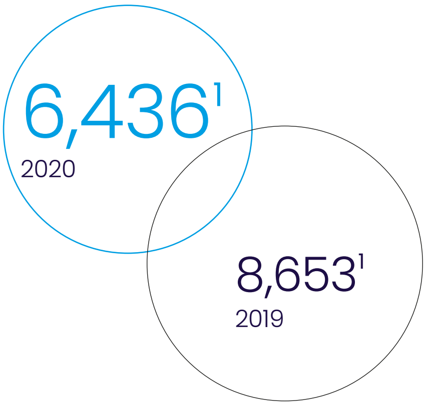
At Thistle/Deveron, work will continue on the rehabitation project alongside ongoing preparations for commencement of the well abandonment programme, which is expected to commence in the fourth quarter.

On Heather/Broom, activities to optimise the well abandonment programme and ready the rig for decommissioning have continued. Once completed, plug and abandonment of the development's 41 wells is expected to begin in the third quarter of 2021, with the work programme anticipated to continue for approximately three years.

1 Includes Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons

Malaysia operations

Daily average net production:
Boepd



Note:
1 Working interest. 2020 entitlement: 4,394 Boepd; 2019 entitlement: 5,812 Boepd

2020 performance summary

In Malaysia, average production was 6,436 Boepd, 25.6% lower than in 2019. This decrease primarily reflected the impact of a riser becoming detached at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform. This resulted in a release of gas which initiated an automatic emergency shutdown of the PM8/Seligi field. The Group's safety systems and emergency response procedures were successfully implemented, with all personnel on board mustered safely. Following an initial investigation and safety assessment, partial operations were able to be recommenced within two days, with wells flowing under natural pressures.

In June, a short planned maintenance shutdown was successfully completed at PM8/Seligi, with a total outage of two days being achieved, well within the anticipated original five-day outage.

On Block PM409, an area containing several undeveloped discoveries and situated close to the Group's existing PM8/Seligi PSC hub, prospects have been progressed through geotechnical studies. The initial four-year exploration term of the PSC commits the partners to the drilling of one well.

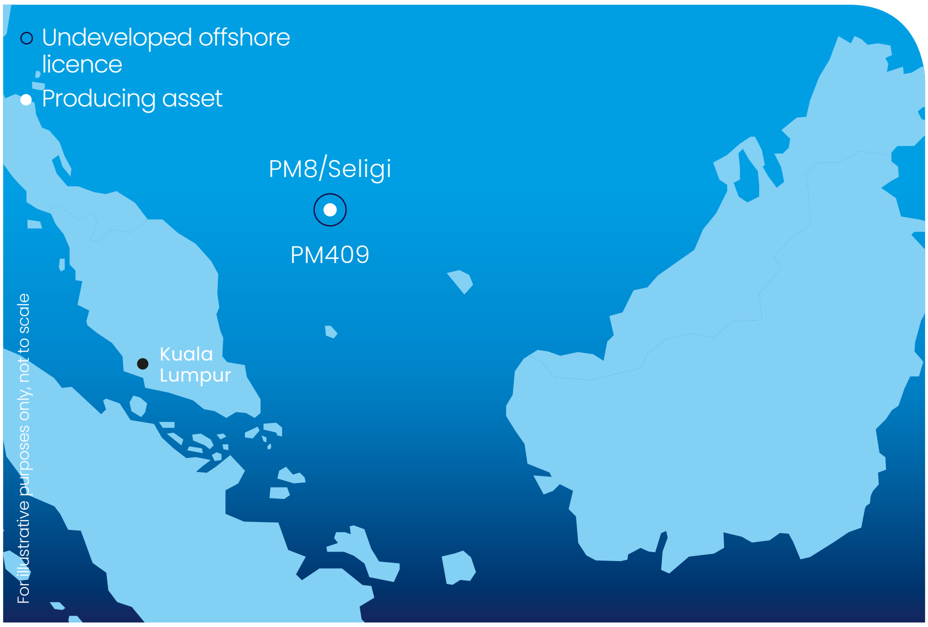
2021 performance and outlook

In line with Group expectations, production has remained impaired for the first two months of 2021, although restoration efforts have been accelerated, with PM8/Seligi wells coming back online ahead of schedule. Normal levels are expected to return during the second half of the year when the damaged riser and pipeline is anticipated to be replaced.

Over the summer, the Group has scheduled a planned five-day shutdown to undertake essential maintenance activities.

EnQuest has significant 2P reserves and 2C resources of c.22 MMboe and c.87 MMboe, respectively, in Malaysia. With a number of low-cost drilling and workover targets having been identified at PM8/Seligi, the Group expects to resume development drilling in 2022, subject to partner approvals. At PM409, the Group continues to high grade the prospects in the block to identify suitable drilling opportunities with the intent for future development.

> Our focus for 2021 is the safe return of full operations at PM8/Seligi as soon as possible.
>
> **Richard Hall**
> Managing Director, Malaysia



Reserves and resources

EnQuest oil and gas reserves and resources

	UKCS[13]		Other regions[13]		Total[13]
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and probable reserves(1, 2, 3 and 4)					
At 31 December 2019		190		22	213
Revisions of previous estimates:					
– Cessation of production[5]	(15)		–		
– Other revisions and transfers from contingent resources[6]	10		3		
		(5)		3	(2)
Production:					
– Export meter	(20)		(3)		
– Volume adjustments[7]	0		1		
		(19)		(2)	(22)
Total proven and probable reserves at 31 December 2020[8]		166		22	189
Contingent resources(1, 2 and 9)					
At 31 December 2019		97		76	173
Revisions of previous estimates					
– Cessation of production[5]	(15)		–		
– Other revisions[10]	–		16		
		(15)		16	1
Promoted to reserves[11]		(5)		(5)	(10)
Total contingent resources at 31 December 2020		77		87	164
Acquisitions and disposals[12]		115		–	115
Total contingent resources		192		87	279

Notes:
1 Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis
2 Proven and probable reserves and contingent resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data
3 The Group's proven and probable reserves profiles have been audited by a recognised Competent Person in accordance with the definitions set out under the 2018 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers
4 All UKCS volumes are presented pre-SVT value adjustment
5 Accelerated cessation of production at Thistle/Deveron and the Dons
6 Technical revisions and transfers from 2C resources at Kraken, Magnus and PM8/Seligi
7 Correction of export to sales volumes
8 The above proven and probable reserves include c.6 MMboe that will be consumed as fuel gas on Magnus
9 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
10 Additional contingent resources from PM409
11 Kraken, Magnus and PM8/Seligi opportunity maturation
12 Acquisition of 40.81% interest in Bressay agreed in July 2020 (completed on 20 January 2021)
13 Rounding may apply

Hydrocarbon assets

EnQuest's asset base as at 31 December 2020[1]

Licence	Block(s)	Working interest (%)	Name	Decommissioning obligation (%)
UK North Sea Upstream production and development				
P193	211/7a & 211/12a	100.0[2]	Magnus	30.0[3]
P1077	9/2b	70.5	Kraken & Kraken North	As per working interests
P1107/P1617	21/8a, 21/12c & 21/13a	50.0	Scolty/Crathes	As per working interests
P238	21/18a, 21/19a & 21/19b	50.0 50.0 50.0 100.0	Kittiwake Mallard Grouse & Gadwall Eagle[4]	25.0 30.9 As per working interests n/a
P073	21/12a	50.0	Goosander	As per working interests
P213[5]	16/26a	8.0	Alba	As per working interests
UK North Sea Decommissioning				
P242	2/5a	n/a	Heather	37.5
P242/P902	2/5a & 2/4a	63.0	Broom	63.0
P475	211/19s	n/a	Thistle	6.1[6]
P236	211/18a	n/a	Thistle/Deveron	6.1[6]
P236	211/18c	n/a	Don SW & Conrie	60.0
P236/P1200	211/18b & 211/13b	n/a	West Don	78.6
P2137	211/18e & 211/19c	n/a	Ythan	60.0
P1765/P1825	30/24c & 30/25c, 30/24b	n/a	Alma/Galia	65.0
Other UK North Sea licences				
P90[5]	9/15a	33.3		n/a
P2334	211/18h	60.0		n/a
P2531[7]	21/18c	100.0		n/a
P2599[7]	211/12b	100.0		n/a
P2601[7]	211/18j, 211/23a & 211/24a	100.0		n/a
Malaysia production and development				
PM8/Seligi[8]	PM8 Extension	50.0	Seligi, North & South Raya, Lawang, Langat, Yong & Serudon	50.0
PM409 PSC	PM409	85.0	Kecubung, Tinggi Timur, Payung, NW Pinang, Tg. Pulai, Ophir	n/a

Notes:
1 On 20 January 2021, EnQuest concluded the acquisition of a 40.81% equity interest in the Bressay field. The field lies across the P234, P493, P920 and P977 licences covering blocks 3/28a, 3/28b, 3/27b, 9/2a and 9/3a
2 BP has a security over the Magnus asset (and related infrastructure assets) and is entitled to 37.5% of free cash flow from the assets subject to the terms of the transaction documents between BP and EnQuest
3 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 30% of BP's actual decommissioning costs on an after-tax basis, which EnQuest estimates will result in a payment equivalent to approximately 9% of the gross estimated decommissioning costs. 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
4 On 25 February 2021, EnQuest announced it had signed an agreement to farm-down an 85% working interest in, and transfer operatorship of, the Eagle discovery. EnQuest will retain a 15% non-operating working interest
5 Non-operated
6 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 options in January and October 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 7.5% of BP's decommissioning costs of Thistle and Deveron, which equates to 6.1% of the gross decommissioning costs
7 UK 32nd licence round award
8 Official reference PM-8 Extension PSC, commonly referred to elsewhere as PM8/Seligi

Financial review

“ Strong operational performance and cash generation in a challenging year continued to allow the Group to make early voluntary repayments of the Group’s credit facility.

Jonathan Swinney
Chief Financial Officer

Financial overview

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

2020 was an extremely challenging year with the oil price collapse of March 2020, the COVID-19 pandemic and the resulting impacts on the macroeconomic environment. As a result, the Company went through significant changes including decisions to cease production at some assets and transform the organisation with a focus on cost and capital expenditure reduction. Notwithstanding the very challenging environment, the Group delivered on its 2020 production and cost guidance. The early and decisive action to reduce costs resulted in operating and capital expenditures being $295.6 million lower than 2019, materially lowering the Group’s free cash flow breakeven.

Revenue and EBITDA were materially lower, impacted by the lower realised commodity prices and lower production compared to 2019. The Group’s senior credit facility reduced to $377.3 million including payment in kind (‘PIK’) following the voluntary early repayment in 2020 of the $65.0 million amortisation due in April 2021.

Production on a working interest basis decreased by 13.8% to 59,116 Boepd, compared to 68,606 Boepd in 2019. This decrease primarily reflected the decisions to cease production at the Heather/Broom and Thistle/Deveron fields, which during 2019 contributed c.6,000 Boepd. In Malaysia, production was lower as a result of the detached riser system at the Seligi Alpha platform. At the Dons, production was impacted by a lack of gas lift which is no longer available from Thistle, combined with underlying natural declines. As planned, Alma/Galia ceased production in June. These decreases were partially offset by higher production at Kraken, driven by a good performance from the FPSO.

Revenue for 2020 was $856.9 million, 49.9% lower than in 2019 ($1,711.8 million) reflecting the materially lower realised prices and lower production. The Group’s commodity hedge programme resulted in realised losses of $6.1 million in 2020 (2019: gains of $24.8 million).

The Group’s operating expenditures of $328.6 million were 36.6% lower than in 2019 ($518.1 million), primarily reflecting the Group’s focus on cost control and its 2020 transformation programme, the decisions to cease production at Heather/Broom and Thistle/Deveron and the cessation of production at Alma/Galia. Unit operating costs decreased to $15.2/Boe (2019: $20.6/Boe).

Other costs of operations of $53.4 million were lower than in 2019 ($97.5 million), principally as a result of lower cost of Magnus-related third-party gas purchases reflecting lower market prices for gas.

EBITDA for 2020 was $550.6 million, down 45.3% compared to 2019 ($1,006.5 million), primarily as a result of lower revenue.

	2020 $ million	2019 $ million
Profit/(loss) from operations before tax and finance income/(costs)	**(20.0)**	442.1
Depletion and depreciation	**445.9**	533.4
Change in provision	**95.2**	–
Change in well inventories	**24.9**	14.6
Net foreign exchange (gain)/loss	**4.6**	16.4
EBITDA	**550.6**	1,006.5

EnQuest's net debt decreased by $133.3 million to $1,279.7 million at 31 December 2020 (31 December 2019: $1,413.0 million). This includes $205.8 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) (31 December 2019: $133.3 million) (see note 18 for further details).

	Net debt/(cash)[1]	
	31 December 2020 $ million	31 December 2019 $ million
Bonds	**1,048.3**	971.9
Multi-currency revolving credit facility ('RCF')	**377.3**	475.1
Sculptor Capital facility	**67.7**	122.9
Tanjong Baram Project Finance Facility	**–**	31.7
SVT Working Capital Facility	**9.2**	31.9
Cash and cash equivalents	**(222.8)**	(220.5)
Net debt	**1,279.7**	1,413.0

Note:
1 See reconciliation of net debt within the 'Glossary – Non-GAAP measures' starting on page 176

In January 2021, EnQuest made a voluntarily early repayment of $25.0 million on the RCF, resulting in a final outstanding payment of $352.3 million, including PIK, due on 1 October 2021.

In June 2020, EnQuest repaid the entire $31.7 million of the Tanjong Baram Project Finance facility having received the first of three instalments from Petronas for reimbursement of outstanding net capital expenditure of around $51.1 million relating to the Tanjong Baram project. The remaining two reimbursement instalments were received during the second half of the year (note 5d).

$72.5 million of bond interest was settled through the issue of additional notes (PIK) and capitalised to the principal of the facilities in the year, reflecting an average oil price of less than $65/bbl over the relevant cash payment condition period in accordance with the terms of the bonds.

The strong production performance at Kraken has driven a $55.2 million reduction in the Sculptor Capital facility in the year.

The Group continues to have unrestricted access to its unrecognised UK North Sea corporate tax losses, which at the end of the year increased to $3,183.9 million (2019: $2,903.4 million). In the current environment, no significant corporation tax or supplementary charge 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

Revenue

On average, market prices for crude oil in 2020 were significantly lower than in 2019. The Group's average realised oil price excluding the impact of hedging was $41.6/bbl, 35.2% lower than in 2019 ($64.2/bbl). Revenue is predominantly derived from crude oil sales, which totalled $779.9 million, 49.6% lower than in 2019 ($1,548.2 million), reflecting the significantly lower oil prices, a reduction of production and moving from a net overlift to a net underlift position at the end of the year. Revenue from the sale of condensate and gas was $60.5 million (2019: $120.2 million), as a result of the significantly lower gas prices. Tariffs and other income generated $22.6 million (2019: $18.7 million). The Group's commodity hedges and other oil derivatives contributed $6.1 million of realised losses (2019: gains of $24.8 million), including gains of $6.2 million of non-cash amortisation of option premiums (2019: gains of $4.9 million) as a result of the timing at which the hedges were entered into. The Group's average realised oil price including the impact of hedging was $41.3/bbl in 2020, 36.8% lower than 2019 ($65.3/bbl).

Note: For the reconciliation of realised oil prices see 'Glossary – Non-GAAP measures' starting on page 176

Cost of sales[1]

	2020 $ million	2019 $ million
Production costs	**265.5**	441.6
Tariff and transportation expenses	**63.7**	74.8
Realised (gain)/loss on derivatives related to operating costs	**(0.6)**	1.7
Operating costs	**328.6**	518.1
(Credit)/charge relating to the Group's lifting position and inventory	**(34.8)**	102.9
Depletion of oil and gas assets	**438.2**	525.1
Other cost of operations	**53.5**	97.5
Cost of sales	**785.5**	1,243.6
Unit operating cost[2]	**$/Boe**	$/Boe
– Production costs	**12.3**	17.6
– Tariff and transportation expenses	**2.9**	3.0
Average unit operating cost	**15.2**	20.6

Notes:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176
2 Calculated on a working interest basis

Cost of sales were $785.5 million for the year ended 31 December 2020, 36.8% lower than in 2019 ($1,243.6 million).

Operating costs decreased by $189.5 million, primarily reflecting the Group's focus on cost control and its 2020 transformation programme, the decisions to cease production at Heather/Broom and Thistle/Deveron and the cessation of production at Alma/Galia. Unit operating costs decreased by 26.2% to $15.2/Boe (2019: $20.6/Boe) as a result of the material reduction in costs having a greater impact than the lower production in 2020.

The credit relating to the Group's lifting position and inventory was $34.8 million (2019: charge of $102.9 million). This primarily reflects a switch to a $3.0 million net underlift position at 31 December 2020 from a $28.6 million net overlift position at 31 December 2019.

Depletion expense of $438.2 million was 16.5% lower than in 2019 ($525.1 million), mainly reflecting the asset impairments at half-year 2020 and year-end 2019, along with lower production.

Other cost of operations of $53.5 million were lower than in 2019 ($97.5 million). This primarily reflects the lower cost of Magnus-related third-party gas purchases following the reduction in the market price for gas, partially offset by the $24.9 million inventory write down recognised in the year, which principally relates to inventory held at assets now scheduled for decommissioning.

Other income and expenses

Net other expense of $85.3 million (2019: net other expense of $18.4 million) is primarily due to recognising $83.2 million in relation to the increase in the decommissioning provision of fully impaired assets, $12.0 million relating to the change in estimate of Thistle decommissioning liability and foreign exchange losses of $4.6 million, partially offset by $10.2 million gain on the termination of the Tanjong Baram risk service contract.

Finance costs

Finance costs of $179.8 million were 13.0% lower than in 2019 ($206.6 million). This decrease was primarily driven by a reduction of $35.0 million in interest charges associated with the Group's loans (2020: $32.8 million; 2019: $67.8 million) offset by a $10.9 million increase in bond interest (2020: $73.5 million; 2019: $62.6 million). Other finance costs included lease liability interest of $50.9 million (2019: $55.7 million), $15.3 million on unwinding of discount on decommissioning provisions and other liabilities (2019: $14.1 million), $5.4 million amortisation of arrangement fees for financing facilities and bonds (2019: $5.7 million) and other financial expenses of $2.0 million (2019: $2.1 million), primarily being the cost for surety bonds to provide security for decommissioning liabilities.

Taxation

The tax credit for 2020 of $172.5 million (2019: $23.6 million tax charge), excluding exceptional items, is mainly due to the Ring Fence Expenditure Supplement (RFES) on UK activities generated in the year.

Remeasurement and exceptional items

Remeasurements and exceptional items resulting in a post-tax net loss of $599.6 million have been disclosed separately for the year ended 31 December 2020 (2019: loss of $663.6 million).

Revenue included unrealised gains of $8.8 million in respect of the mark-to-market movement on the Group's commodity contracts (2019: unrealised losses of $65.4 million).

Cost of sales included expenses of: $5.9 million in relation to the PM8/Seligi riser repair provision; $5.8 million in relation to the Group's transformation costs; and $1.9 million in relation to unrealised losses on FX derivatives.

Non-cash impairment charges of $422.5 million (2019: $812.4 million) on the Group's oil and gas assets arises from a reduction in the long-term oil price.

Other income included a $138.2 million gain in relation to the fair value recalculation of the Magnus contingent consideration reflecting the reduction in oil price assumption (2019: $15.5 million expense). Other finance costs mainly relates to the unwinding of contingent consideration from the acquisition of Magnus and associated infrastructure and interest charged on the vendor loan of $77.3 million (2019: $57.2 million).

A net tax charge of $232.3 million (2019: credit of $303.5 million) has been presented as exceptional, representing the non-cash de-recognition of undiscounted deferred tax assets of $371.1 million given the Group's lower oil price assumptions, partially offset by the tax impact of the above items. EnQuest continues to have unrestricted access to its full unrecognised UK North sea corporate tax losses of $3,183.9 million at 31 December 2020.

IFRS results

The Group's results on an IFRS basis are shown on the Group Income Statement as 'Reported in the year', being the sum of our Business performance results and our Remeasurements and exceptional items, both of which are explained above.

Our IFRS revenue reflects our Business performance revenue, but adjusted for the impact of unrealised movements on derivative commodity contracts. Business performance Cost of sales is similarly adjusted for the impact of unrealised movements on derivative contracts, together with various exceptional provisions as noted above. Taking account of these items, and the other exceptional items included within the Group income statement which are principally related to impairment charges and the change in fair value of contingent consideration payable, our IFRS loss from operations before tax and finance costs was $310.1 million (2019: loss of $467.8 million), our IFRS loss before tax was $566.0 million (2019: loss of $792.1 million), and our IFRS loss after tax of $625.8 million (2019: loss of $449.3 million).

Earnings per share

The Group's Business performance basic loss per share was 0.2 cents (2019 profit per share: 13.1 cents) and diluted loss per share was 0.2 cents (2019 profit per share: 13.0 cents).

The Group's reported basic loss per share was 37.8 cents (2019 loss per share: 27.4 cents) and reported diluted loss per share was 37.8 cents (2019 loss per share: 27.4 cents).

Cash flow and liquidity

Net debt at 31 December 2020 amounted to $1,279.7 million, including PIK of $205.8 million, compared with net debt of $1,413.0 million at 31 December 2019, including PIK of $133.3 million. The movement in net debt was as follows:

	$ million
Net debt 1 January 2020	**(1,413.0)**
Net cash flows from operating activities	522.1
Cash capital expenditure	(131.4)
Net interest and finance costs paid	(42.2)
Finance lease payments	(123.0)
Repayments on Magnus financing and profit share	(61.8)
Net cash received on termination of Tanjong Baram risk service contract	51.1
Non-cash capitalisation of interest	(73.5)
Other movements, primarily net foreign exchange on cash and debt	(8.0)
Net debt 31 December 2020[1]	**(1,279.7)**

Note:
1 See reconciliation of alternative performance measures within the 'Glossary – Non-GAAP measures' starting on page 176

The Group's reported net cash flows from operating activities for the year ended 31 December 2020 were $522.1 million, down 45.7% compared to 2019 ($962.3 million). The main drivers for this decrease were materially lower realised prices and a decrease in production, partially offset by the significant reduction in operating expenditure.

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

	Year ended 31 December 2020 $ million	Year ended 31 December 2019 $ million
North Sea	**127.0**	224.4
Malaysia	**4.4**	13.0
Exploration and evaluation	**–**	0.1
	131.4	237.5

Cash capital expenditure in 2020 primarily related to Kraken and Magnus drilling activities.

Balance sheet

The Group's total asset value has decreased by $1,069.9 million to $3,706.7 million at 31 December 2020 (2019: $4,776.6 million), mainly due to the impairment charge on the Group's tangible oil and gas assets and depletion of oil and gas assets. Net current liabilities have increased to $536.9 million as at 31 December 2020 (2019: $282.7 million). Included in the Group's net current liabilities are $101.8 million of estimated future obligations where settlement is subject to the financial performance at Kraken and Magnus (2019: $178.7 million).

Property, plant and equipment ('PP&E')

PP&E has decreased by $817.0 million to $2,633.9 million at 31 December 2020 from $3,450.9 million at 31 December 2019 (see note 10). This decrease encompasses the capital additions to PP&E of $83.6 million, a net increase of $10.2 million for changes in estimates for decommissioning and other provisions, offset by non-cash impairments of $422.5 million and depletion and depreciation charges of $445.9 million, and $42.5 million related to disposals and the termination of the Tanjong Baram risk service contract.

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

	2020 $ million
North Sea	**81.4**
Malaysia	**2.2**
	83.6

Trade and other receivables

Trade and other receivables decreased by $160.8 million to $118.7 million at 31 December 2020 compared with $279.5 million at 31 December 2020. The decrease is driven by a reduction in trade and joint venture debtors, mainly attributable to shorter contractual payment terms for cargoes lifted at the end of 2020.

Cash and net debt

The Group had $222.8 million of cash and cash equivalents at 31 December 2020 and $1,279.7 million of net debt, including PIK and capitalised interest of $214.2 million (2019: $220.5 million, $1,413.0 million and $140.7 million, respectively).

Net debt comprises the following liabilities:
- $249.2 million principal outstanding on the £155.0 million retail bond, including interest capitalised as PIK of $39.4 million (2019: $225.7 million and $22.1 million, respectively);
- $799.2 million principal outstanding on the high yield bond, including interest capitalised as PIK of $149.2 million (2019: $746.1 million and $96.1 million, respectively);
- $377.3 million of credit facility, comprising amounts drawn down of $360 million and interest capitalised as PIK of $17.3 million (2019: $475.1 million, $460.0 million and $15.1 million, respectively);
- $67.7 million on the Sculptor Capital facility, comprising amounts drawn down of $59.4 million and capitalised interest of $8.4 million (2019: $122.9 million, $115.5 million and $7.4 million, respectively);
- $9.2 million relating to the SVT Working Capital Facility (2019: $31.9 million); and
- $nil relating to the Tanjong Baram Project Finance Facility (2019: $31.7 million).

Provisions

The Group's decommissioning provision increased by $66.3 million to $778.2 million at 31 December 2020 (2019: $711.9 million). The movement is due to an increase in changes in estimates of $85.9 million, $7.5 million of additions and $14.5 million unwinding of discount, partially offset by utilisation of $41.6 million for decommissioning carried out in the year.

Other provisions, including the Thistle decommissioning provision, increased by $11.1 million in 2020 to $62.2 million (2019: $51.1 million). The Thistle decommissioning provision of $53.1 million is in relation to EnQuest's obligation to make payments to BP by reference to 7.5% of BP's decommissioning costs of the Thistle and Deveron fields. Other provisions also include $5.9 million in relation to the PM8/Seligi riser repair provision.

Contingent consideration

The contingent consideration related to the Magnus acquisition decreased by $135.0 million. In 2020, EnQuest paid $74.0 million to BP (2019: $88.4 million). The repayment primarily related to the $31.0 million partial repayment of the 75% interest vendor loan and interest and $41.1 million relating to BP's entitlement to share in the cash flows from the 75% interest. A change in fair value estimate charge of $138.2 million (2019: $15.5 million) and finance costs of $77.3 million (2019: $57.2 million) was recognised in the year.

Income tax

The Group had an income tax receivable of $5.6 million (2019: $4.1 million payable) related to the net of corporate income tax on Malaysian assets and North Sea Research and Development Expenditure Credits.

Deferred tax
The Group's net deferred tax asset has decreased from $555.1 million at 31 December 2019 to $497.6 million at 31 December 2020. This is driven by non-cash partial de-recognition of undiscounted deferred tax assets given the Group's lower oil price assumptions partially offset by other movements in relation to capital expenditure and Ring Fence Expenditure Supplement. EnQuest continues to have access to its full unrecognised UK corporate tax losses carried forward at 31 December 2020 amounting to $3,183.9 million (31 December 2019: $2,903.4 million).

Trade and other payables
Trade and other payables of $255.2 million at 31 December 2020 are $164.7 million lower than at 31 December 2019 ($419.9 million). The full balance of $255.2 million is payable within one year. This decrease is driven by a reduced cost base following the Group's transformation programme and a reduction in the Group's overlift position.

Leases obligations
As at 31 December 2020, the Group held a lease liability of $647.8 million (2019: $716.2 million).

Financial risk management
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. The disclosures in relation to financial risk management objectives and policies, including the policy for hedging, and the disclosures in relation to exposure to oil price, foreign currency and credit and liquidity risk, are included in note 27 of the financial statements.

Going concern disclosure
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 costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

The Group continues to monitor actively the impact on operations from COVID-19 and the health, safety and wellbeing of its employees is its top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. At the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected by COVID-19.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60.0/bbl from March to December 2021 and $58.0/bbl to the end of the first quarter 2022.

The Base Case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside Case'):
- 10.0% discount to Base Case prices resulting in Downside Case prices of $54.0/bbl from March to December 2021 and $52.2/bbl for 2022;
- Production risking of c.4.0% for 2021; and
- Incremental decommissioning security of $43 million is met through letters of credit resulting in a reduction in headroom as letters of credit are drawings under the RCF.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern with refinanced borrowing facilities for 12 months from the date of publication of its full year results. The Directors have also performed reverse stress testing on the Base Case, with the breakeven price for liquidity in the going concern period being c.$30/bbl under the assumption the existing facility is refinanced. In addition, under the Base Case prices, a minimum size of facility or alternative financing arrangement of approximately $100 million would be required to maintain positive headroom should the existing facility not be refinanced.

The quarterly liquidity covenant in the existing facility (the 'Liquidity Test') requires that the Group shows it has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date of 1 October 2021. The Liquidity Test will be applied for the quarters ended March 2021 and June 2021. The Liquidity Test assumptions include a price deck of the average forward oil price curve, minus a 10% discount, of 15 consecutive business days starting from approximately the middle of the previous quarter.

Under these prices, the Group forecasts no breaches in the Base Case for the Liquidity Test. By applying a discount in excess of 29% (19% in addition to the 10% discount stipulated in the Facility agreement), the Group would breach this covenant, prior to any mitigations such as asset divestments or other funding options. Under such an oil price scenario, the covenant breach would therefore require a covenant waiver to be obtained. The Directors are confident that waivers from the facility providers would be forthcoming. Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including refinancing, asset 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.

Within the going concern period, the RCF expires in October 2021 (see note 18). The Directors are confident that the Group will be able to refinance the RCF based on the Group's Base Case cash flow projections.

On 4 February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area for an initial consideration of $325 million, excluded from the Base Case. The Group also advised plans to finance the transaction through the combination of a new secured debt facility, an equity raise, and the interim period post-tax cash flows generated from the economic date of 1 January 2021 to transaction completion.

A final term sheet has been agreed following bilateral discussions with DNB and BNP (lead and co-technical banks) and has been approved by their respective credit committees. DNB and BNP have also received credit committee approval for material commitments to the new financing. The Directors are confident they will be able to complete the new financing given the feedback they have had from both current lenders and also potential new lenders. In the unlikely event the Suncor acquisition does not complete, the Directors are also confident they will be able to negotiate a new facility based on the Group's existing asset base or alternative financing arrangements such as a prepayment facility would be available to bridge any shortfall.

Whilst securing lenders' commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern, such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to March 2024. The viability assumptions are consistent with the going concern assessment, with the additional inclusion of an oil price of $58.0/bbl for the remainder of 2022, a longer term price of $60.0/bbl and refinancing of both the High Yield and Retail Bonds in October 2023. This assessment has taken into account the Group's financial position as at March 2021, 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 46 to 59. The period of three years is deemed appropriate as it is the time horizon across which management constructs a detailed plan against which business performance is measured, covering repayment of the Group's term loan and maturation of both its High Yield and Retail bonds. Notwithstanding the material uncertainty as described above in the going concern disclosure, based on the Group's projections, including refinancing of the current facility and of both the High Yield and Retail bonds, the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the period to March 2024.

The Base Case has further been stress tested to understand the impact on the Group's liquidity and financial position of reasonably possible changes in these risks and/or assumptions.

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 have been reviewed on both an individual and combined basis by the Directors, while considering the effectiveness and achievability of potential mitigating actions.

Oil price volatility

A 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 approximately 5 MMbbls at an average floor price of around $55/bbl in 2021. The Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

Access to funding

Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's liquidity and/or ability to refinance the RCF. In assessing viability, the Directors recognise the conclusion that the Group expects to negotiate a new facility or alternative financing arrangements.

The maturity date of the existing $799 million High Yield Bond and the £186 million Retail Notes (both figures at year end 2020 and inclusive of the PIK notes) is October 2023. The Directors recognise that refinancing would be required at or before the maturity date of the bonds, and believe this would be achievable subject to market conditions at that time. Under the oil price assumptions outlined above, the total amount of the High Yield Bond and Retail Notes outstanding at October 2023 would be $954 million and £228 million respectively. If oil prices were to be lower than those assumptions, then a refinancing of the bonds may require asset sales or other financing or funding options.

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 can continue in operation and meet its commitments as they fall due over the viability period ending March 2024. Accordingly, the Directors therefore support this viability statement.

Jonathan Swinney
Chief Financial Officer

Environmental, Social and Governance

An accountable and responsible approach

For many years, EnQuest has had a clear, Board-approved approach to corporate responsibility, focusing on five key areas: health and safety; environment; people; communities; and business conduct. Similarly, the Group has a well-established governance framework that complies with the UK corporate governance code.

Since its inception, EnQuest has prioritised SAFE Results, with no harm to people and respect for the environment.

A changing world
In recent years, Environmental, Social and Governance ('ESG') factors have continued to grow in importance for companies, reflecting the renewed focus on company purpose, widespread concerns about climate change and the increasing importance of stakeholder considerations, combined with a renewed emphasis on long-term value enhancement.

As such, the Group undertook a review of the extensive ESG landscape, in order to identify those factors which are relevant and applicable to its purpose and business model, ensuring its approach was clear, appropriate and easily understood by its stakeholders.

As an oil and gas company, EnQuest recognises the need for a social licence to operate. As such, health and safety, climate change and emissions reductions are clearly areas of focus for the Company. EnQuest also recognises the importance of a diverse and inclusive culture in driving Company performance.

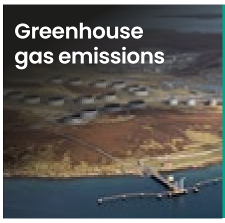
As such, the Group concluded its core ESG areas of focus are: health and safety, including asset integrity; the pursuit of emission reduction opportunities in order to contribute positively towards the achievement of national emissions targets; looking after our people and positively impacting the communities in which we operate; and upholding our robust risk management framework while acting with the highest standards of integrity in all that we do.

> "EnQuest is an oil and gas company, focused on safely improving the operating, financial and environmental performance of assets for the benefit of its stakeholders.

10%
Targeted Scope 1 and 2 emissions reduction by end 2023

EnQuest's ESG focus areas

Environmental



Read more
See page 34

- Committed to contributing positively towards the drive to net-zero
- Focused on absolute Scope 1 and 2 emission reductions in existing and acquired assets; three-year target linked to reward
- Incorporate carbon costs into investment evaluations

Social

Read more
See page 38

- SAFE Results with no harm to our people and respect for the environment remains a key priority
- Recognising our people are critical to EnQuest's success
- Committed to operating with a strong culture and Values, in line with the Group's purpose
- Committed to improving workforce diversity and inclusion
- Aim to impact positively the communities in which we operate

Governance

Read more
See page 46

- Committed to operating with high standards of integrity in line with the Group's Code of Conduct
- Apply the Group's established risk management framework and operate within the Board-approved statement of risk appetite
- ESG performance is linked to reward

Group non-financial information statement

The following information is prepared in accordance with Section 414CB(1) of the Companies Act 2006. Further information on each of the areas set out below, including the Group's policies where relevant, can be found in the following pages of this section of the report. The Group's key performance indicators can be found on page 04.

Environment

- EnQuest's priority is delivering SAFE Results, with no harm to our people and respect for the environment
- Our Environmental Management System ensures our activities are conducted in such a way that we manage and mitigate our impact on the environment, which includes permitted hydrocarbon releases and discharges. Non-compliant releases and discharges from the Group's operations carry adverse reputational, financial and other consequences
- EnQuest recognises that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reducing the impact on climate change of carbon-related emissions. The Group has already reduced its absolute Scope 1 and 2 CO_2 equivalent emissions by around 26% since 2018 and aims to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023
- The Group continues to evolve its disclosures in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. 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

Our people

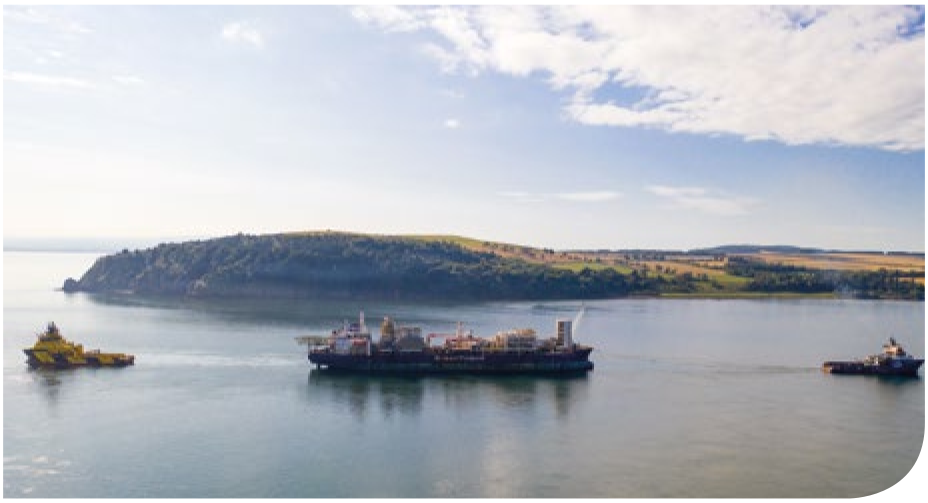
- We are committed to ensuring that EnQuest is a great place to work
- Employee engagement and wellbeing were key focus areas throughout 2020 as the Group adjusted its ways of working in response to the COVID-19 pandemic and underwent a transformation programme. Training was provided to the Group's UK management and supervisory team to help them support their teams through this process
- EnQuest is committed to improving workforce diversity and inclusion ('D&I') and there was a renewed examination of the Company's approach during 2020, with revisions to the Group's existing D&I policy and the introduction of a Company-wide D&I strategy

Community

- EnQuest is fully committed to active community engagement programmes and encourages and supports charitable donations in the areas of improving health, education and welfare within the communities in which it works
- 2020 saw the Group provide additional support to local organisations in the UK in response to the COVID-19 pandemic
- The Group also supported a diverse range of charities and continued to be a key sponsor of a number of important local community programmes on Shetland
- In Malaysia, our teams continue to support an active programme of local community initiatives and charities alongside ongoing sponsorship programmes for internships and graduates
- In addition, EnQuest has partnered with the Institute of Chemical Engineers to offer accreditation of the Universiti Kebangsaan Malaysia Chemical and Process Engineering Programme

Business conduct

- The Group has a Code of Conduct that sets out the behaviour which the organisation expects of its Directors, managers and employees, and of our suppliers, contractors, agents and partners
- This code addresses the Group's requirements in a number of areas, including the importance of health and safety and environmental protection, compliance with applicable law, anti-corruption, anti-facilitation of tax evasion, anti-slavery, addressing conflicts of interest, ensuring equal opportunities, combatting bullying and harassment and the protection of privacy



A responsible operator

Focused on reducing absolute Scope 1 and 2 emissions across our operations.

A strong culture and management framework
Environmental protection has been a core feature of EnQuest's business model since its inception, with the Group's priority being SAFE Results with no harm to people and respect for the environment. As an oil and gas company, we are focused on safely improving the operating, financial and environmental performance of mature and late-life assets. Climate change and emissions reductions are clear areas of focus for the Company. EnQuest welcomes the drive for increased governance and transparency in relation to climate change, continuing voluntarily to evolve its disclosures in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (see pages 61 to 63) and outlining its assessment of associated potential risks to the execution of its strategy within the risks and uncertainties section of this report (see page 46).

EnQuest's Environmental Management System ('EMS') ensures that activities are conducted in such a way that it manages and mitigates its impact on the environment. The EMS meets the requirements of OSPAR recommendation 2003/5, is aligned with the requirements of the International Organisation for Standardisation's environmental management system standard – ISO 14001 – and is independently verified every two years. In the UK, the Group publishes its annual Environmental Statement in line with the regulatory requirement under the OSPAR recommendation 2003/5 (see the Environmental, Social and Governance section on our website, www.enquest.com). These statements are an open and transparent representation of EnQuest's environmental performance across all its offshore operations. Environmental management and reporting in Malaysia to PETRONAS Malaysian Petroleum Management is addressed as part of the EnQuest Malaysia Management System and in line with ISO 14001.

For a number of years, the Group has been a member of Oil Spill Response Limited and the Petroleum Industry of Malaysia Mutual Aid Group and remains a supporter of Shetland Oil Terminal Environmental Advisory Group.

Lowering emissions through the energy transition
EnQuest recognises that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reducing the impact on climate change of carbon-related emissions. The Group's aim is to benefit all its stakeholders as a responsible operator of oil and gas assets through the expected multi-decade energy transition. Its aim is to extend safely production lives, enhance cash flow and reduce Scope 1 and Scope 2 emissions on its assets as reliance on hydrocarbons is reduced, thereby contributing towards the achievement of national emissions targets. The Group's focus on short-cycle investments and proven capabilities in improving operational performance, infill drilling and sub-sea tie-backs allows it to calibrate its investments to match the requirements of the market

> "EnQuest aims to extend production lives, enhance cash flow and reduce Scope 1 and Scope 2 emissions.
>
> **Salman Malik**
> Vice-President Strategy, M&A and Corporate Finance

Environmental

Clear emission reduction targets linked to reward

Reduction in Scope 1 and 2 emissions

26%

vs 2018

Targeted Scope 1 and 2 emissions reduction 2021-2023

10%

related to oil and gas consumption, minimising the risk of stranded assets.

To balance all stakeholder interests, EnQuest believes a measured approach to absolute Scope 1 and 2 emissions reductions involving credible targets and the pursuit of economic emission reduction opportunities is appropriate.

Significant reductions achieved

The Group has already reduced its absolute Scope 1 and 2 CO_2 equivalent emissions by 26% since 2018, primarily through the Group's decisions to cease production at its Heather/Broom, Thistle/Deveron and Alma/Galia assets.

In addition to reducing upstream-related emissions, the Group has also implemented an innovative economic emissions avoidance opportunity at Kraken by optimising sales of Kraken cargoes directly to the shipping fuel market. This initiative has two environmental benefits: it avoids emissions related to refining; and it also helps reduce sulphur emissions in accordance with the IMO 2020 regulations. The avoidance of emissions related to Kraken's crude is significant – with refining emissions for a typical North Sea crude estimated to be c.32 – 36kgCO_2e/bbl[1,2]. As such, emissions relating to Kraken oil by the time it reaches its end user compares favourably on a fully refined basis to even high-performing North Sea fields[3].

A clear target for the existing portfolio linked to reward

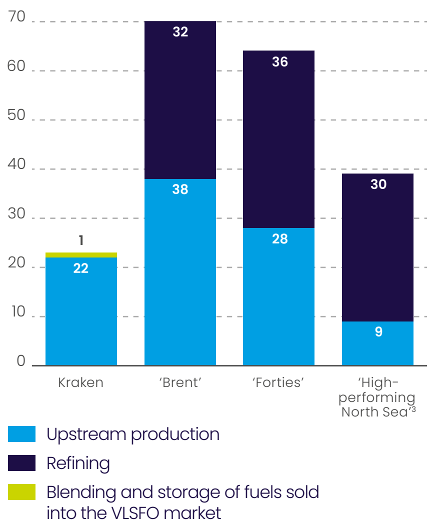
The Group aims to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023. This target has been included as a key performance metric in the Group's long-term incentive scheme for Executive Directors and applicable employees. To help achieve this target, a number of emission reduction opportunities have been identified, such as installing generator turbine water wash facilities and the use of high-efficiency particulate air filters on Magnus. However, these projects alone will not enable the Group to meet its target. It is recognised that improved environmental performance is a continuous process and as such, there are working groups dedicated to the identification and implementation of economically viable emissions savings across the Group's portfolio of assets.

Looking to the future

As majors and other operators continue to shift their focus from mature basins in a number of geographies, it is expected there will be further opportunities for the Company to access additional oil and gas resources. However, time and careful consideration will be taken to find the right opportunities, assessing them against a number of criteria, including carbon intensity and absolute emission levels.

Integrated emissions

kgCO_2e/bbl



> The Group has developed robust emission reduction targets and remains committed to playing a unique role within the energy transition.
>
> **Salman Malik**
> Vice President Strategy, M&A and Corporate Finance

There will be a clear emission reduction plan for any such asset for which EnQuest assumes operatorship, relative to the carbon footprint in the hands of the seller, and the Group will factor in an appropriate associated carbon price into the acquisition economics, even in markets where no carbon trading or pricing mechanism exists. EnQuest is committed to targeting assets where it believes it has an advantage in reducing emissions and reducing costs. The Group can make a positive contribution towards the future of North Sea oil and gas through doing its part in ensuring that each asset is in the right hands.

This positive contribution extends into the decommissioning phase of an asset's life-cycle. During this phase, wells will need to be plugged and abandoned, while the production and processing facilities, and any relevant infrastructure will need to be removed. Given the extent of this work, it will necessarily take place over an extended period of time and require careful project management. EnQuest's UK Decommissioning directorate will oversee the safe and efficient execution of these work programmes and is committed to delivering them in a responsible manner, which includes minimising emissions and maximising the recycle and reuse of recovered materials. The UK Decommissioning directorate continues to work with the supply chain, industry participants and decommissioning workgroups to identify creative ways, such as alternative power generation options, in which emissions associated with decommissioning activities can be kept to a minimum.

Other opportunities continue to be explored, with EnQuest being an active participant in the Energy Hub, an initiative being developed by the Shetland Islands Council and the Oil and Gas Technology Centre ('OGTC'), which aims to deliver a clean, sustainable energy future for Shetland and the UK. Additional areas of focus are looking at whether Kraken oil can be used as an alternative energy source and SVT power supply options. In Malaysia the Group continues to voluntarily limit emissions below the regulatory limit.

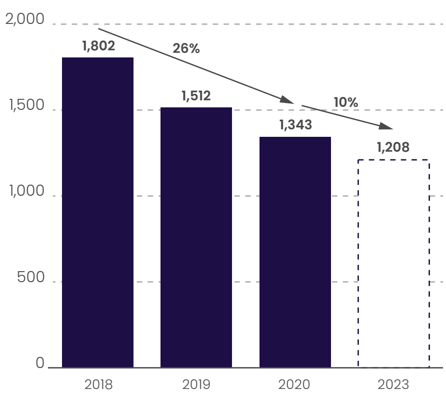
The Group continues to engage with entities such as Oil and Gas UK, the OGTC and the Oil and Gas Authority, to understand better how it can contribute further to the industry approach to net-zero, whilst remaining aligned with EnQuest's strategy.

Atmospheric emissions

The Group seeks to use energy efficiently within its facilities for extracting, processing and exporting oil and gas and continually looks to identify opportunities that may reduce emissions from its operations.

Scope 1 and 2 emissions

($ktCO_2e$)[4]



Notes:
1 $kgCO_2e/bbl$ = kilograms of CO_2 equivalent per produced barrel
2 Based on the University of Calgary PRELIM model recognised by California Air Resources Board, US Energy Tech. Laboratory, US DOE Office of Energy Efficiency and Renewable Energy, Carnegie Endowment for International Peace and the US Environmental Protection Agency
3 Source: EnQuest analysis of UK North Sea assets 2019 performance
4 $ktCO_2e$ = thousand tonnes CO_2 equivalent

Our people and communities

Social

Our priority is the safety of our people, our most important asset. We have a strong set of Values that underpin the way in which we work. We embrace diversity as we strive to be a truly inclusive organisation.

Health and safety

“SAFE Results is a key priority embedded within our culture and fundamental in delivering on our business objectives.

Mark Wilson
HSEA Director

The Group's licence to operate is underpinned by its safety performance. As such, the Group's priority is to deliver SAFE Results without compromising standards in order to meet other business objectives. To achieve this, the business is managed in accordance with the Group-wide Health, Safety, Environment and Assurance ('HSEA') policy, the key components of which can be found on the Group's website, www.enquest.com, under Environmental, Social and Governance.

Culture

Safety is at the heart of EnQuest's Values and in 2020, an independent safety review was undertaken to analyse the safety culture within EnQuest, with the report providing positive feedback on the progress of cultural development, outlining a strong commitment to safety throughout EnQuest, with well-motivated and informed people supported by robust processes.

The Group continues to learn from both leading and lagging data through the development of a learning culture, building further resilience into its HSEA systems and processes. Throughout a period of uncertainty due to COVID-19 and a Group transformation programme that involved a reorganisation of the UK North Sea business into three directorates and a reduction in employee and contractor roles of c.40% following the decisions to cease production at the Heather and Thistle Platforms, the focus has been on: the delivery of SAFE behaviours aligned to four key pillars of standards (following rules and procedures), awareness (understanding the hazards and controls), fairness (adopting the correct behaviours) and engagement (communicating effectively); and ensuring that the collective actions of the workforce contribute to delivering SAFE Results, adjusting actions and behaviours accordingly to suit the situation. A number of activities have further enhanced the EnQuest health and safety culture, namely:

- Implementing sustained assurance arrangements for the reorganisation, with a focus on the prevention of major accident hazards ('MAH') via a process of planned implementation and post-change monitoring, in accordance with regulatory good practice;
- Positively contributed to the industry organisation Oil and Gas UK ('OGUK') in support of the industry pandemic steering group, including the chairing of two workgroups with a focus on the prevention of hydrocarbon releases across the industry;
- Exceeded the target for site safety-leadership visits for both physical and virtual engagement. Leadership engagement continued to be an important part of the Group's safety programme, particularly given the uncertainty and potential impact COVID-19 and the Group's transformation could have had on HSEA performance;
- Received the Petronas Bronze Award for Health, Safety, Security and Environment ('HSSE') performance in Malaysia based upon sustained HSSE performance from both a leading and lagging indicator perspective; and
- Alignment across the Group of HSEA key performance indicators and continual improvement activities driving a consistent and measurable approach to HSEA performance, supported by a number of sharing and learning events held between Malaysia and the UK.

During 2020, the Group highlighted the emphasis it places on maintaining a strong safety culture through the presentation of two SAFE Results 'Values awards' at its Global Town Hall event.

Our people and communities continued

Health

The Group's approach to COVID-19 was developed upon the principles of safety and welfare of people and security of supply. A series of control arrangements were developed during 2020, which included pre-mobilisation health screening and testing for all those mobilising to an EnQuest site, with proven mitigation measures in place in the event of a suspected case. As a result, a high level of resilience was witnessed, which allowed for the continuation of safe operations. See pages 08 to 09 for further information.

The wellbeing of the EnQuest workforce is an ongoing and key focus, with a number of initiatives successfully delivered, including: wellbeing communications from the wellbeing committee in the UK; a step challenge to focus on the physical health aspects of wellbeing; mental health awareness training; use of a third-party application to provide individual mental and physical health awareness; and virtual fitness training sessions via a dedicated coach.

Process safety

There has been a continued emphasis on reducing risk across assets in relation to the management of safety-critical repair orders. Positive progress has been made on leading metrics such as onsite leadership engagement, both physically and virtually, with particular attention paid to process safety performance in terms of preventing hydrocarbon releases.

- A proactive approach to HSEA systems has demonstrated the effectiveness of streamlining the investigation process and the importance of developing actions to prevent recurrence of HSE events;
- For those assets in a decommissioning phase and not processing hydrocarbons, asset integrity is being assured to deliver safe decommissioning activities whilst the management of safety-critical repair orders is being tailored to reflect the specific circumstances of each asset;
- In both Malaysia and the UK, regulator interaction continued in an open and transparent manner to ensure that issues requiring attention have been raised in an approach that drives collaboration; and
- Reportable hydrocarbon releases across UK operated assets decreased from 11 in 2019 to four in 2020, with those in Malaysia decreasing from five in 2019 to two in 2020.

In Malaysia, a fire on Seligi Alpha was categorised as a tier one major event by the regulators. A full investigation, supported by independent external specialists, was instigated to understand the root cause of the riser detachment, identifying an internal micro crack which in combination with fatigue due to cyclic loading, caused premature failure. This is a newly discovered cause and EnQuest is working with the Malaysian regulatory body, Petronas MPM, to ensure the risk is better understood and to develop new inspection protocols for risers. At the Sullom Voe Terminal, we have witnessed a number of issues around pipeline integrity and resultant leaks since taking over operatorship. These incidents, combined with the small fire in one of the compressor modules at Heather in 2019, led to a Company-wide asset integrity review, supported by independent parties, which will review in detail the integrity management system across the Company and at an asset level to identify strengths and opportunities to improve management of major accident hazards from a people, process and plant perspective.

Personal safety

Despite the challenges and uncertainties of 2020, combined with the age of EnQuest's assets, the Group's Lost Time Incident ('LTI') performance improved, achieving a number of notable milestones across its asset base.

- Group LTI frequency[1] of 0.22: Malaysia recorded a frequency rate of zero and the North Sea of 0.35 against a UKCS benchmark LTI frequency of 1.28; and
- Our teams at Kittiwake and PM8/Seligi recorded 15 and ten years LTI free, respectively, while the Thistle, Heather, Alma/Galia, the Dons assets and Sullom Voe Terminal in the UK North Sea, all recorded a LTI-free year.

1 Lost Time Incident frequency represents the number of incidents per million exposure hours worked (based on 12 hours for offshore and eight hours for onshore)

> At EnQuest, we expect to have an inclusive culture, where everyone can be themselves, express their views and offer their opinions. Opening up the creativity in our Company will help strengthen us, adapt and grow.

Janice Mair
Director People, Culture & Diversity

Our people

A connected workforce
Effective employee engagement remains a key priority for EnQuest. As the global COVID-19 pandemic comprehensively changed the way we worked and interacted with our colleagues, our onshore workforce moved online and we adapted our structured programme of engagement, including town halls, business briefings, village halls and other employee-led groups, such as the Global Employee Forum, to an exclusively virtual environment. Our workforce across the Company adapted well to these changes, proving we could be effective and productive through these new ways of working. We continued to use traditional electronic communications alongside our virtual engagements to ensure important information, such as the Group's evolving operational response and employee guidance on maintaining safe operations through the pandemic, was shared throughout the organisation (see pages 08 to 09 for our response to the COVID-19 pandemic). We introduced our own internal informal engagement channel, Yammer, enabling our workforce to create dedicated spaces to share best practice, recognise important milestones and individual contributions to business delivery, alongside promoting our enhanced employee wellbeing programmes. 2020 also saw further recognition of our employees' achievements, with the introduction of our first Global Recognition Awards, two of which focused on delivery of SAFE Results and two for demonstrating other Company Values.

A Group-wide employee survey with participation from over 70% of employees concluded in early 2020. The results were communicated to our teams during the first quarter of 2020, prompting a number of action plans to be developed. Although some of these plans were necessarily placed on hold, others were fully realised in the areas of remote working and employee wellbeing.

Between April and August, the Group undertook an extensive business transformation programme in response to the changing macro-environment (see pages 16 to 17 for more information). In the UK, a formal collective consultation process, involving employees and trade union representatives, was undertaken across the sites given the scale of the change. Dubai and Malaysia also saw a slight reduction in roles, alongside revisions to offshore working rotations in Malaysia. While changes such as these are difficult for all involved, positive feedback was received, highlighting the openness and transparency of this collaborative process.

During the third quarter, we revisited our Company purpose, incorporating ideas, reviews and challenges from across the organisation (see page 06).

Following the conclusion of the transformation programme in September, and in an effort to continue to build on the progress made from the earlier survey, a short 'pulse' survey was carried out to understand our people's views on the key areas of: support through organisational change; wellbeing; diversity and inclusion; recognition; and Company vision and strategy. Almost 80% of our employees participated in this survey and told us they feel their opinions are valued and respected, and they can be themselves at work. We recognise, however, that we still have work to do to embed the revised Company purpose and improve employee recognition and activities in these areas. The Group has undertaken a further comprehensive Group-wide employee survey in the first quarter of 2021. The results will be analysed and presented to the Board, and cascaded through the organisation with action plans to be developed focusing on driving improvement in the highlighted areas, and sharing good practice across the business.

Our people and communities continued

Voice of the workforce – the EnQuest Global Employee Forum

The EnQuest global employee forum, chaired by two Non-Executive Directors, met four times throughout 2020. Despite the challenges presented by COVID-19 and Transformation 2020, areas discussed and reviewed during the year included: flexible working arrangements; employee communications and recognition; women in leadership; mentoring programmes; environmental responsibility; and diversity.

Following feedback from employees, the Forum, in collaboration with the business, was instrumental in the development of a Manager Expectations document. The purpose of this document is to demonstrate EnQuest's commitment in supporting and encouraging employees to perform at their best. It sets out a consistent set of practical leadership principles for managers to demonstrate to achieve SAFE Results. This has been rolled out globally, with managers' and supervisors' performance being measured against these expectations.

A focus on wellbeing

The mental and physical welfare of all employees has been, and continues to be, a major focus for the business. Recognising the impact the business transformation had on our people, particularly at a time of a global pandemic, it was important to offer additional support to employees. We provided mental health and wellbeing awareness training, the provision of access to virtual GP services via our healthcare provider and a third-party digital platform offering tools and techniques to support wellbeing. Outplacement support was also available to those who left the business.

Using our internal social media channel Yammer as a major tool, a wide variety of events, challenges and competitions were offered throughout the year which all helped to bring people together in new ways.

These included:

- Team EnQuest Corporate Games Challenge (January and February 2020 only)
- Mental Health Awareness week
- Ongoing support and provision of resources for colleagues and their families relating to COVID-19 and the transformation process
- Blogs supporting health and wellbeing, as well as the challenges of working from home
- Practical support and equipment in setting up 'home offices', including ergonomic awareness, one-to-one health and fitness coaching, live virtual fitness classes and a series of talks sponsored by our fitness provider on topics ranging from nutrition to spinal care
- Promoting the mental health app and Employee Assistance Programme
- Promotion of a cycle-to-work scheme in the UK
- 'Step Count' Challenge in October and November to support mental and physical wellbeing during the winter months
- Participation in activities for the charity 'Movember'
- Ngopi coffee and tea virtual get-togethers with colleagues in Malaysia to support wellbeing

Continued growth and learning

Ahead of the transformation programme, all UK managers and supervisors were offered specific training on 'Leading through change' and 'Collective consultation awareness' to help them support their teams and ensure the programme was delivered professionally and consistently across the business. In addition, all managers and employees were invited to attend a virtual wellbeing awareness session to highlight the importance of taking care of their own wellbeing and supporting colleagues through this challenging period and thereafter.

As part of the launch of the new Company purpose, we recognised the importance of engaging with our managers and supervisors to embed this concept into the organisation. Virtual 'Purposeful leadership' development training was undertaken, providing all managers and supervisors with a 'tool-kit' to enhance their communication skills, and motivate and inspire their teams, and the wider business, in recognising how their role connects to our purpose and to continue delivering against it.

We have also continued our programme of job specific training throughout 2020 to maintain levels of skills and competence, particularly in relation to safety-critical roles.

To ensure the new UK structure is fit for purpose, a capability review was conducted in the final quarter of 2020 to identify and address any skills gaps and identify key talent to aid future succession planning. The output from this review will be a key driver for learning and development during 2021.

Diversity and inclusion

We are fully committed to improving workforce diversity and inclusion ('D&I'), and there was a renewed examination of the Company's approach during this period of intense change. In addition to including diversity of skills, experience, nationality and gender in its appointments to the Board and within the executive and senior management teams, we recently updated our D&I policy and developed a Company-wide D&I strategy. This strategy aims to build awareness by providing education and strengthening understanding throughout the workforce, ensuring EnQuest's working environment is inclusive and celebrates diversity as a positive contributor to performance.

Throughout 2020 and into the first quarter of 2021, we have continued to support International Women in Engineering Day and the UK's AXIS Network. We have also established an employee-led global community – the EnQlusion Network – to explore and promote a greater sense of connectedness and celebration of difference at EnQuest. The EnQlusion Network has already hosted a talk from the Association for Black and Minority Ethnic Engineers, of which EnQuest is a member, and continues to work on ways to develop a more diverse and inclusive workplace.

During 2021, enhanced diversity balance will continue to be a core theme. We are introducing Company-wide 'Conscious inclusion' training for managers and supervisors.

With D&I central to our ways of working, we are challenging our recruitment, employment and training policies and how they attract, retain and develop a wide range of talent in our organisation.

46%

Reduction in the mean gender pay gap since 2017

The goals are to establish improved representation and, importantly, demonstrate that viable strategies have been developed to achieve far greater diversity balance in EnQuest in the future.

EnQuest also 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 requirements of the job. As set out in the Equal Opportunities & Dignity at Work Policy, the Company encourages individuals with a disability, or who develop a disability at any time during their employment, to speak to their line manager about their condition. This will enable the Company to provide support and prevent unfavourable treatment.

Gender pay gap

We have seen improvements overall in our gender pay gap statistics in the previous reporting period, building on a narrowing of gaps since reporting commenced in 2017.

In the latest period there has been a slight reduction in the gap related to the average rate of total pay for women, down to c.21% (2019: c.23%), with a more significant reduction in the median total pay gap, which has been reduced to c.11% (2019: c.17%). This means that since 2017, the average pay gap has approximately halved, with the median pay gap reduced by around two-thirds.

The proportion of male and female employees awarded a bonus in the period is broadly level, and the focus will be to retain this parity. These improvements reflect ongoing efforts the Company has made to redress the imbalance in its gender pay gap figures.

We are committed to further narrowing the gender pay gap and continuing to provide equal pay for equal jobs. This will be achieved through a continued focus on D&I in all aspects of the business. In addition to a fair and balanced recruitment and promotion process and regular assessment of skills, appropriate action will be taken on the feedback received from the employee forum and the global employee engagement survey results, alongside formalising the diversity and inclusion strategy with a view to setting targets that will influence compensation in future years.

The Group's people and organisational strategy is to ensure that it has the right people, in the right roles, driving performance and delivering efficiencies as it continues to pursue its strategy. As such, we ensure our processes are open and transparent, providing equal opportunities for all. EnQuest will continue with this approach, recruiting individuals on merit and their suitability for the role.

Our people and communities continued

Making a positive contribution to our local communities remains a key part of our activities at EnQuest.
With the challenges brought about by the COVID-19 crisis, the importance of giving back to our communities has never been more urgent. We continued to build on the strong relationships we have established with a variety of charitable and educational organisations.

Our communities

UK
In the UK, EnQuest supported local communities through charitable donations, both financial and in kind, throughout the year including:

- Helping frontline care workers during the COVID-19 crisis by redeploying excess personal protective equipment from offshore to Shetland NHS and a local care home in Aberdeen
- Redeploying surplus-to-requirements frozen meals to an Aberdeenshire food bank to help those most in need
- Our UK offshore and Shetland HSE fundraising initiative raising a combined £103,000 in 2020, with a range of charities supported by this initiative including Lupus UK, Friends of the Neonatal Unit at Archie's Foundation and the Juvenile Diabetes Research Foundation International. In Shetland, staff and contractors at our Sullom Voe Terminal ('SVT') continued to support local charities with the funds raised in 2020 being donated to four charities including the Fair Isle Bird Observatory and Chillax, a Shetland-based youth group which provides support for mental health
- Raising £22,000 on behalf of the SVT owners through a separate charitable incentive scheme which triggers a donation pledged to local charities and worthy causes nominated by staff for every 30-day period of strong HSE performance at the terminal. The range of charities included the Royal National Lifeboat Institute, the Shetland Food Bank and Shetland Samaritans
- Providing practical and financial support to food banks and local charities at Christmas in Scotland through donations and sponsorship of Christmas hampers, presents, meals and online giving trees
- Fundraising for the men's physical and mental health charity 'Movember', with our people collecting donations totalling almost £16,000
- Donating two trailer-loaded firefighting monitors to the Scottish Fire and Rescue Service following a serious fire at a local Shetland hotel in July 2020, an incident at which off-duty EnQuest firefighters offered their services voluntarily and used similar equipment to help bring the blaze under control
- Supporting the 32nd consecutive year of awards made by the Trustees of the Sullom Voe Terminal Participants' Tenth Anniversary Education Trust, which was established to promote and encourage the education of Shetland residents who will be studying a discipline likely to contribute to the social or economic development of Shetland:
  - 13 educational awards each worth £2,000 were made for the academic year 2020/2021
  - Six of these recipients of scholarships in 2019/2020 are encouraged to apply for a second year if they are continuing to progress their education
  - One of the successful applicants this year will attend the terminal for paid summer work experience in 2021 under a special Sullom Voe Partnership Award

Malaysia
In Malaysia, we continued to support a very active programme of local community initiatives, charitable donations and educational sponsorship, including:

- Raising a total of £7,500 in charitable donations primarily through two initiatives: the 'matching funds' charity drive which, with funds provided by the Company, raised £6,400; and redeploying funds of £1,100 that would have been spent on hosting a physical town hall which unavoidably became a virtual event. The funds raised were given to the Rumah Titian Kaseh charity, a temporary settlement for vulnerable communities, the Good Samaritan Home in Klang, Selangor as well as the Kechara Soup Kitchen society, a non-religious, non-partisan, non-governmental organisation that distributes food, and basic medical aid and offers counselling to the homeless and urban poor of Malaysia
- Continued support of the Sungai Pergam Orang Asli Primary School in Terengganu focusing on a student bursary programme entitled 'Love My School'. EnQuest Malaysia has supported the programme since June 2019, providing 70 students with funds to pay for school meals and learning essentials
- Fully sponsoring the extension of the canteen building for Sungai Pergam Orang Asli Primary School. This provides a multi-purpose hall for all school events and programmes
- Selecting 11 local university students for internship placements in a variety of disciplines, ranging from Operations to Finance and HR, as part of our graduate recruitment process
- Partnering with the Institute of Chemical Engineers ('IChemE') to offer accreditation of the Universiti Kebangsaan Malaysia ('UKM') Chemical and Process Engineering Programme from 2020 until 2024
- Doubling the awards made in 2020 by EnQuest and The Amjad and Suha Bseisu Foundation from two to four undergraduate students in chemical, mechanical and petroleum engineering from University Malaya ('UM') and Universiti Teknologi Malaysia ('UTM')

Company-wide fundraising
£'000

>150

Robust risk management framework

Risks and uncertainties

Management of risks and uncertainties
Consistent with the Company's purpose, the Board has articulated EnQuest's strategic vision to be the operator of choice for maturing and underdeveloped hydrocarbon assets. EnQuest is focused on delivering on its targets, driving future growth and managing its capital structure and liquidity.

EnQuest seeks to balance its risk position between investing in activities that can achieve its near-term targets, including those associated with reducing emissions, and drive future growth with the appropriate returns, including any appropriate market opportunities that may present themselves, and the continuing need to remain financially disciplined. This combination drives cost efficiency and cash flow generation, facilitating the continued reduction in the Group's debt. In this regard, the Board has developed certain guiding strategic tenets that link with EnQuest's strategy and appetite for risk. Broadly, these reflect a focus by the Company on:

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

In pursuit of its strategy, EnQuest has to manage a variety of risks. Accordingly, the Board has established a Risk Management Framework ('RMF') to enhance effective risk management within the following Board-approved overarching statements of risk appetite:

- The Group makes investments and manages the asset portfolio against agreed key performance indicators consistent with the strategic objectives of enhancing net cash flow, reducing leverage, reducing emissions, managing costs and diversifying its asset base;
- The Group seeks to embed a risk culture within the organisation corresponding to the risk appetite which is articulated for each of its principal risks;
- The Group seeks to avoid reputational risk by ensuring that its operational and HSEA processes, policies and practices reduce the potential for error and harm to the greatest extent practicable by means of a variety of controls to prevent or mitigate occurrence; and
- The Group sets 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 and controls review exercise; a risk report (focused on identifying and mitigating the most critical and emerging risks through a systematic analysis of the Company's business, its industry and the global risk environment); and a continuous improvement plan is periodically reviewed by the Board (with senior management) to ensure that key issues are being adequately identified and actively managed. In addition, the Group's Safety, Climate and Risk Committee (a sub-Committee of the Board) provides a forum for the Board to review selected individual risk areas in greater depth (for further information, please see the Safety, Climate and Risk Committee report on pages 105 to 106.

As part of its strategic, business planning and risk processes, the Group considers how a number of macroeconomic themes may influence its principal risks. These are factors of which the Company should be cognisant when developing its strategy. They include, for example, long-term supply and demand trends, developments in technology, demographics, the financial and physical risks associated with climate change and how markets and the regulatory environment may respond, and the decommissioning of infrastructure in the UK North Sea and other mature basins. These themes are relevant to the Group's assessments across a number of its principal risks. The Group will continue to monitor these themes and the relevant developing policy environment at an international and national level, adapting its strategy accordingly. For example, while climate change is now a discrete, standalone risk within the Group's 'Risk Library', EnQuest remains conscious of the potential for a number of aspects of climate change to amplify certain principal risks over time (e.g. in relation to access to capital markets – see 'Financial' risk on page 54 – and oil price – see 'Oil and gas prices' risk on page 52). The Group is also conscious that as an operator of mature producing assets with limited appetite for exploration, it has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets. This flexibility also ensures the Group has some inherent mitigation against the potential impact of 'stranded assets'.

As part of its evolution of the Group's RMF, the Safety, Climate and Risk Committee has refreshed its views on all risk areas faced by the Group (categorising these into a 'Risk Library' of 19 overarching risks). For each risk area, the Committee reviewed 'Risk Bowties' that identified risk causes and impacts and mapped these to preventative and containment controls used to manage the risks to acceptable levels (see diagram below).

The Board, supported by the Audit Committee and the Safety, Climate and Risk Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2020 to the date of this report and carried out a robust assessment of the Company's emerging and principal risks and the procedures in place to identify and mitigate these risks. The Board confirms 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'.

Near-term and emerging risks

As outlined above, the Group's RMF is embedded in all levels of the organisation with asset risk registers, regional and functional risk registers and ultimately an enterprise level 'Risk Library'. This integration enables the Group to quickly identify, escalate and appropriately manage emerging risks.

During 2020, work was undertaken to enhance the integration of these risk registers to allow management to understand better the various asset risks and how these ultimately impact on the enterprise level risk and their associated 'Risk Bowties'. In turn, this ensures that the preventative and containment controls in place for a given risk are reviewed and robust based upon the identified risk profile. It also drives the required prioritisation of deep dives to be undertaken by the Safety, Climate and Risk Committee. For example, a number of risks in relation to asset integrity at an asset level have been escalated, ultimately resulting in a deep dive of the 'Risk Bowties' in relation to the enterprise level risks that are impacted by asset integrity risk, such as HSEA. After careful analysis and assessment, and in light of the increasing importance of climate change-related issues, the Board recognised climate change as a discrete, standalone risk within the 'Risk Library'.

The most relevant near-term and emerging risks, along with the Group's assessment of their potential impact on the business and associated required mitigations, have been recognised as follows:

Risk

Climate change

The Group recognises that climate change concerns and related regulatory developments could impact a number of the Group's principal risks, such as oil price, financial, reputational and fiscal and government take risks, which are disclosed later in this report.

Appetite

EnQuest recognises that the oil and gas industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reduce the impact of carbon-related emissions on climate change, and is committed to contributing positively towards the drive to net-zero.

Mitigation

Mitigations against the Group's principal risks potentially impacted by climate change are reported later in this report.

The Group endeavours to reduce emissions through improving operational performance, minimising flaring and venting where possible, and applying appropriate and economic improvement initiatives, noting the ability to reduce carbon emissions will be constrained by the original design of our later-life assets.

EnQuest has reported on all of the greenhouse gas emission sources within its operational control required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (see pages 112 to 113 for more information).

The Group has committed to a 10% reduction in Scope 1 and 2 emissions over three years, from a year-end 2020 baseline, with the achievement linked to reward. A working group, which reports to the Safety, Climate and Risk Committee, has been established to identify and implement economically viable emissions savings opportunities across the Group's portfolio of assets.

During 2020, the Group developed a clear ESG strategy, which included a focus on emissions reductions.

The Group's focus on short-cycle investments drives an inherent mitigation against the potential impact of 'stranded assets'.

Robust risk management framework continued

Risk	Appetite		Mitigation	
COVID-19 As a responsible operator, EnQuest continues to monitor the evolving situation and consequent risks with regard to the COVID-19 pandemic, recognising it could impact a number of the Group's principal risks, such as human resources and oil price, which are disclosed later in the key business risks section of this report. At the time of publication of EnQuest's full-year results, the Group's day-to-day operations continue without being materially affected.	EnQuest's employee and contractor workforce are critical to the delivery of SAFE Results and EnQuest's success, and the Group has a very low tolerance for operational risks to its production.	The Group has no tolerance for conduct which may compromise its reputation for integrity and competence. The Group recognises that considerable exposure to price risk is inherent to its business.	The Group continues to work with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk (see pages 08 to 09 for more information on the Group's response to COVID-19).	See 'Oil and gas price' risk on page 52 for more information on how the Group mitigates against price risk.

Brexit

The Safety, Climate and Risk Committee reviewed management's assessment of risk and related mitigations associated with the UK's planned withdrawal from the European Union and was satisfied with its assessment that there was no material risk to EnQuest's business.

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D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

Key business risks
The Group's principal risks (identified from the 'Risk Library') 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 purpose and strategy, 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 (see page 04 for an explanation of the KPI symbols).

Amongst these, the key risks the Group currently faces are materially lower oil prices for an extended period due to any potential macroeconomic impact of COVID-19 (see 'Oil and gas prices' risk on page 52), which may impact our ability to refinance debt and/or execute growth opportunities, and/or a materially lower than expected production performance for a prolonged period (see 'Production' risk on page 51 and 'Subsurface risk and reserves replacement' on page 57).

Risk

Health, Safety and Environment ('HSE')

Oil and gas development, production and exploration activities are by their very nature complex with HSE risks covering many areas, including major accident hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental impacts, including those associated with climate change.

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 Medium)

There has been no material change in the potential impact or likelihood of this risk. The Group has a strong, open and transparent reporting culture and monitors both leading and lagging indicators. However, in September, there was a high-potential incident on the Seligi Alpha platform resulting in the shutdown of production. An extensive investigation has been undertaken to determine root causes and implement actions to reduce risk of any re-occurrence. In addition, a Company-wide asset integrity review, supported by independent parties, has commenced. The Group's overall record on HSE remains robust.

Their remains a risk to the availability of competent people given the potential impacts of COVID-19.

Related KPIs – A, B, C, D, E, F, G, I

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. Employees are empowered to stop operations for safety-related reasons.

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 assurance activities and has undertaken a series of deep dives into the Risk Bowties that have demonstrated the robustness of the management process and identified opportunities for improvement. A Group aligned HSE continual improvement programme is in place, promoting a culture of engagement and transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk continues to be a core responsibility of the Safety, Climate and Risk Committee. During 2020, the Group continued to focus on control of major accident hazards and 'SAFE Behaviours'.

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

EnQuest's HSE Policy is now fully integrated across its operated sites and this has enabled an increased focus on HSE. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.

In 2020, an independent safety review was undertaken across the Group that reported positively on the Group's safety culture with a recognition of a strong commitment towards safety and robust processes in place. Given the importance of asset integrity, a Company-wide review team has been formed to look at integrity management arrangements at a Group, regional and asset level to drive improvements in 2021.

The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the level of risk.

Robust risk management framework continued

Risk	Appetite

Reputation

The reputational and commercial exposures to a major offshore incident, including those related to an environmental incident, or non-compliance with applicable law and regulation and/or related climate change disclosures, are significant. Similarly, it is increasingly important EnQuest clearly articulates its approach to and benchmarks its performance against relevant and material ESG factors.

Potential impact
High (2019 High)

Likelihood
Low (2019 Low)

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

Related KPIs – A, C, D, E, G, H, I

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.

All personnel are authorised to shut down production for safety-related reasons.

During 2020, the Group developed a clear ESG strategy, with a focus on health and safety (including asset integrity), emissions reductions, looking after its employees, positively impacting the communities in which the Group operates, upholding a robust RMF and acting with high standards of integrity.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
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G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

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 UK North Sea is, to a significant extent, dependent on the Sullom Voe Terminal.

Longer-term production is threatened if low oil prices or prolonged field shutdowns and/or underperformance requiring high-cost remediation bring forward decommissioning timelines.

Potential impact
High (2019 High)

Likelihood
Medium (2019 Low)

There has been no material change in the potential impact; however, the likelihood has increased to medium as a result of a smaller portfolio and the reduced ability to counter any downside risks.

The Group has delivered within its 2020 guidance range, mainly reflecting strong performances from Kraken and at Scolty/Crathes, offset by lower than expected production in Malaysia following the incident at PM8/Seligi.

Related KPIs – B, C, D, E, G, H, I

Appetite

Since production efficiency and meeting production targets are 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 has continued transforming the Sullom Voe Terminal, including lowering operating costs, to ensure it remains competitive and well placed to maximise its useful economic life and support the future of the North Sea.

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.

Robust risk management framework continued

Risk

Oil and gas prices

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

Potential impact
High (2019 High)

Likelihood
High (2019 High)

The potential impact and likelihood remains high reflecting the uncertain economic outlook due to COVID-19 and the potential acceleration of 'peak oil' demand.

The Group recognises that climate change concerns and related regulatory developments are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply. Further, oil and gas will remain an important part of the energy mix, especially in developing regions.

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 the oil price, and institutionalising a lower cost base.

As an operator of mature producing assets with limited appetite for exploration, the Group has limited exposure to investments which do not deliver near-term returns and is therefore in a position to adapt and calibrate its exposure to new investments according to developments in relevant markets.

The Group monitors oil price sensitivity relative to its capital commitments and has a policy (see page 162) which allows hedging of its production. As at 24 March 2021, the Group had hedged approximately 5 MMbbls. 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 an established 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 previously, the Group's focus on production efficiency supports mitigation of a low oil price environment.

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 (2019 Medium)

Likelihood
Medium (2019 Low)

There has been no change to the potential impact. However, the likelihood has increased reflecting an increase in personnel working from home.

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 Safety, Climate and Risk Committee undertook additional analyses of cyber-security risks in 2020. The Group has a dedicated cyber-security manager and work on assessing the cyber-security environment and implementing improvements as necessary will continue during 2021.

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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, or the availability of competent people given the potential impacts of COVID-19, could also impact the operations of the Group.

Potential impact
Medium (2019 Medium)

Likelihood
Medium (2019 High)

The impact is unchanged; the likelihood is lower due to the downturn in the industry.

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, flexible and diverse organisation requires creativity and 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, 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 employees to the Group.

The Group recognises that its people are critical to its success and so is continually evolving EnQuest's end-to-end people management processes, including recruitment and selection, career development and performance management. This ensures that EnQuest has the right person for the job and that appropriate training, support and development opportunities are provided, with feedback collated to drive continuous improvement whilst delivering SAFE Results. The culture of the Group is an area of ongoing focus and employee surveys and forums have been undertaken to understand employees' views on a number of key areas in order to develop appropriate action plans.

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 and also that fewer young people may join the industry due to climate change-related factors. EnQuest aims to attract the best talent, recognising the value and importance of diversity.

Executive and senior management retention, succession planning and development remain important priorities 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.

Following its introduction in 2019, the Group employee forum has continued to add to EnQuest's employee communication and engagement strategy, improving interaction between the workforce and the Board.

The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice and the prevailing level of risk.

Robust risk management framework continued

Risk

Financial

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

The outstanding amount on the Group's term loan and revolving credit facility at 31 December 2020 was $377.3 million (including payment in kind interest) which requires repayment or refinancing by October 2021. While the Board remains confident it will be able to complete a refinancing as part of the funding arrangements associated with the Golden Eagle area acquisition, significant reductions in the oil price or material reductions in production will likely have a material impact on the Group's ability to repay or refinance the loan facility in 2021. The Group's term loan and revolving credit facility also 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, including those related to an environmental incident, and production delays or outages, could threaten the Group's liquidity and/or ability to comply with relevant covenants. Similar conditions could impact the Group's ability to refinance the bonds ahead of maturity in October 2023. Further information is contained in the Financial review, particularly within the going concern and viability disclosures on pages 30 and 31.

Potential impact
High (2019 High)

Likelihood
High (2019 High)

There is no change to the potential impact or likelihood, reflecting the continued economic uncertainty and potential impact of oil price fluctuations. The Group has made material progress in reducing its term loan facility ahead of schedule, and has voluntarily repaid early a further $25.0 million in January 2021. There is potential for the availability and cost of capital to increase and insurance availability to erode, as factors such as climate change and other ESG concerns and oil price volatility may reduce investors' and insurers' acceptable levels of oil and gas sector exposure, and the cost of emissions trading certificates may trend higher along with insurers' reluctance to provide surety bonds for decommissioning, thereby requiring the Group to fund decommissioning security through its balance sheet.

Related KPIs – B, C, F, G, H

Appetite

The Group recognises that significant leverage was required to fund its growth as low oil prices impacted revenues. However, it is intent on further reducing its leverage levels, maintaining liquidity, enhancing profit margins, controlling 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

Debt reduction is a strategic priority. During 2020, the Group repaid a total of $100.0 million of the term facility, with the $65.0 million due in April 2021 voluntarily repaid early.

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.

EnQuest generates 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.

The quick and decisive actions management took following the combined impacts of the COVID-19 pandemic, the oil price decline and resulting economic crisis in early 2020 have materially lowered the Group's free cash flow breakeven.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

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 (2019 High)

Likelihood
Medium (2019 Medium)

There has been no material change in the potential impact or likelihood, although the exit of the UK from the European Union may impact the regulatory environment going forward, for example by affecting the cost of emissions trading certificates.

Related KPIs – E, G

Appetite

The Group faces an uncertain macroeconomic 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

Project execution and delivery

The Group's success will be partially dependent upon the successful execution and delivery of potential future projects, including decommissioning in the UK, that are undertaken.

Potential impact
Medium (2019 Medium)

Likelihood
Low (2019 Low)

The potential impact and likelihood remain unchanged. As the Group focuses on reducing its debt, its current appetite is to pursue short-cycle development projects and to manage its UK decommissioning projects over an extended period of time.

Related KPIs – B, D, E, F, G, H, I

Appetite

The efficient delivery of projects has been a key feature of the Group's long-term strategy. The Group's appetite is to identify and implement short-cycle development projects such as infill drilling and near-field tie-backs.

While the Group necessarily assumes significant risk when it sanctions a new project (for example, by incurring costs against oil price assumptions), or a decommissioning programme, it requires that risks to efficient project delivery 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, notably the Capital Projects Delivery Process, 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's UK decommissioning programmes are managed by a dedicated directorate with an experienced team who are driven safely to deliver projects at the lowest possible cost and associated emissions.

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.

Robust risk management framework continued

Risk

Portfolio concentration

The Group's assets are primarily concentrated in the UK North Sea around a limited number of infrastructure hubs and existing production (principally oil) is from mature fields. This amplifies exposure to key infrastructure (including ageing pipelines and terminals), political/fiscal changes and oil price movements.

Potential impact
High (2019 High)

Likelihood
High (2019 High)

The Group is currently focused on oil production and does not have significant exposure to gas or other sources of income.

The decisions taken to accelerate cessation of production at a number of the Group's assets has further reduced the number of producing assets and so increased portfolio concentration in the near term.

During the year, the Group signed a sales and purchase agreement with Equinor to purchase a 40.81% operating interest in the Bressay oil field in the UK North Sea, with the transaction completing in January 2021. Furthermore, in February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area. Separately, a number of licence awards were granted to EnQuest during the 32nd Offshore licensing round.

The Group continues to assess acquisition growth opportunities with a view to improving its asset diversity over time.

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, both in the UK and internationally, to liaise with vendors/governments and evaluate and transact acquisitions. 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, expanding hubs and potentially investing in gas assets or export capability where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash flow and strengthening the balance sheet. In February 2021, the Group announced it had signed an agreement to farm-down an 85% equity interest in and transfer operatorship of the Eagle discovery to Anasuria Hibiscus UK Limited. The transaction is subject to customary regulatory and third-party approvals.

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Risk

Joint venture partners

Failure by joint venture parties to fund their obligations.

Dependence on other parties where the Group is non-operator.

Potential impact
Medium (2019 Medium)

Likelihood
Low (2019 Low)

There has been no material change in the potential impact. The likelihood has also been maintained reflecting the Group's current low exposure to capital-intensive projects requiring funding from third parties.

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 credit worthiness 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, taking account of the impact of any wider developments (e.g. 'Brexit').

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 (2019 High)

Likelihood
Medium (2019 Medium)

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

Low oil prices or prolonged field shutdowns requiring high-cost remediation which accelerate cessation of production can potentially affect development of contingent and prospective resources and/or reserves 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.

The Group has material reserves and resources at Magnus, Kraken and PM8/Seligi that it believes can primarily be accessed through low-cost sub-sea drilling and tie-backs to existing infrastructure. EnQuest continues to evaluate the substantial 2C resources at PM409 to identify future drilling prospects. PM409 is contiguous to the Group's existing PM8/Seligi PSC, providing low-cost tie-back opportunities to the Group's existing Seligi main production hub.

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

Robust risk management framework continued

Risk	Appetite	Mitigation
Competition The Group operates in a competitive environment across many areas, including the acquisition of oil and gas assets, the marketing of oil and gas, the procurement of oil and gas services and access to human resources. **Potential impact** High (2019 High) **Likelihood** High (2019 High) The potential impact and likelihood have remained unchanged, with a number of competitors assessing the acquisition of available oil and gas assets and the rising potential for consolidation (e.g. through reverse mergers). **Related KPIs –** C, D, E, F, H	The Group operates in a mature industry with well-established competitors and aims to be the leading operator in the sector.	The Group has strong technical, commercial and business development capabilities to ensure that it is well positioned to identify and execute potential acquisition opportunities, utilising innovative structures as may be appropriate. The Group maintains good relations with oil and gas service providers and constantly keeps the market under review. EnQuest has a dedicated marketing and trading group of experienced professionals responsible for maintaining relationships across relevant energy markets, thereby ensuring the Company achieves the highest possible value for its production. A recent example of the marketing and trading group's capability has been moving Kraken from the crude oil market into fuel oil. In addition, the marketing and trading group is responsible for the Company's commodity price risk management activities in accordance with the Group's business strategy.

Key Performance Indicators ('KPIs'): A: HSEA (LTI) B: Production (Boepd) C: Unit opex ($/Boe)
D: EBITDA ($ million) E: Cash generated by operations ($ million) F: Cash capital and abandonment expense ($ million)
G: Net debt ($ million) H: Net 2P reserves (MMboe) I: Emissions (tCO_2e)

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. HSEA, 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 (2019 Medium)

Likelihood
Medium (2019 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, ethical 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 with 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.

Business conduct

> We are committed to acting with high standards of integrity in all that we do, conducting our business in accordance with our Values and in compliance with applicable law.

EnQuest has a Code of Conduct which 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 and of our suppliers, contractors, agents and partners. We are committed to conducting ourselves ethically, with integrity and to complying with all applicable legal requirements; we routinely remind those who work with, or for us, of our obligations in this respect.

Our employees and everyone 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-facilitation of tax evasion, 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' that provides an insight into the status of the main sources of controls and assurance in respect of the Group's key risk areas (see pages 46 to 59 for further information on how the Group manages its 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 focus for the Group.

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 anonymously and encourages personnel to report any concerns to the legal department and/or the General Counsel. Where concerns are raised (whether through the 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, investigate and take appropriate action. 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 appropriately.

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 for 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 publishes its modern slavery statement on its website at www.enquest.com, under the Environmental, Social and Governance section.

Further detail on EnQuest's corporate responsibility policies and activities, including the area of business conduct, is also available on the Environmental, Social and Governance section of EnQuest's website at www.enquest.com. This is updated as required during the year.

Task Force on Climate-related Financial Disclosures

The Group welcomes the initiative for increased governance and transparency in general, and specifically in relation to climate change. The Board recognises the increasing societal and investor focus on climate change, and the desire to understand its potential impacts on the oil and gas industry through improved disclosure, utilising mechanisms such as those proposed by the Task Force on Climate-related Financial Disclosures ('TCFD'). The table below provides information relevant to each of the four TCFD recommendations, and the Group will continue to evolve these disclosures over time in preparation of the mandatory reporting in 2021.

TCFD framework	EnQuest disclosures	Reference
Governance • Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	EnQuest's purpose is to provide creative solutions through the energy transition by being the operator of choice for maturing and underdeveloped hydrocarbon assets. The Board is focused on a strategy which recognises that hydrocarbons will remain a key element of the global energy mix for many years and through which the Group can pursue a business model which helps to fulfil energy demand as part of the transition to a sustainable lower-carbon world while reducing carbon emissions from its own business across Upstream, Midstream and Decommissioning operations where practicable and ensuring a robust risk management framework ('RMF') is in place. As set out in the risk management section below, climate-related issues feature within a number of the Group's principal risks and are prioritised and managed accordingly. In addition, climate change is recognised as a standalone risk area in its own right (see page 46). Reflecting the importance the Group places on evolving climate change-related matters, the RMF process is overseen by a dedicated sub-Committee of the Board. This sub-Committee is now the Safety, Climate and Risk Committee and its terms of reference have been amended to enable it to support the Board with increased oversight of de-carbonisation, including monitoring progress towards the Group's three-year emission reduction target and climate change-related risk matters. The Board and management keep appraised of the evolving risk landscape and its potential impacts on the Company's business. In doing so, they consult as appropriate with the Group's advisers and appropriate third-party institutions, including fund managers, investors and industry associations such as Oil & Gas UK. During 2020, the ESG steering group, comprising members of the Executive Committee and other appropriate managers, reviewed the Group's emissions performance, identified a number of initial emission reduction initiatives and proposed a discrete Group-wide target (see the Metrics and Targets section below). In support of this, a working group has been set up dedicated to the identification and implementation of economically viable emissions savings opportunities across the Group's portfolio of assets. This group will report to the Executive Committee and the Safety, Climate and Risk Committee on a regular basis.	Pages 46 to 59, 68 to 101, 105 to 106 and 109 to 113

Task Force on Climate-related Financial Disclosures continued

TCFD framework	EnQuest disclosures	Reference
Strategy • Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	EnQuest's business model is distinct from companies that have a material exploration component to their business and it is, therefore, less exposed to the much longer duration of exploration, discovery, development and production. EnQuest primarily acquires mature and underdeveloped assets from other industry participants and drives performance improvements, including emission reductions, through short-cycle, quick payback investments. EnQuest's UK Decommissioning directorate is responsible for the safe and efficient execution of the decommissioning work programmes and is committed to delivering them in a responsible manner, which also includes minimising emissions alongside maximising the recycle and reuse of recovered materials. As majors and other operators continue to shift their focus from mature basins such as the North Sea and Malaysia, there will be further opportunities for the Company to access additional resources. The Group is also engaged in various forums, such as Project Orion in the Shetland Islands, to ensure it remains aware of any emerging prospects that could provide cleaner energy to its asset base and so lower the Group's overall emissions. Long-term energy demand scenarios (such as the International Energy Agency's Sustainable Development Scenario and the Shell Sky Scenario, both of which are aggressive decarbonisation forecasts) forecast hydrocarbons to remain an important part of the energy mix for a considerable period. Notwithstanding this, EnQuest's business model will enable it to adapt to a rapidly changing external environment, as its short-cycle investments reduce the risk of 'stranded assets' within EnQuest's portfolio. In addition, during 2020 EnQuest transformed its business, focusing on its lowest cost assets which saw unit operating expenditures reduce to c.$15.2/Boe, further enhancing its ability to successfully operate in a low oil price environment. The Group considers as part of its strategic, business planning and risk processes, how a number of macroeconomic themes may influence its principal risks. The most material risk factor to EnQuest's business model is the oil price, and climate change is one of many potential influencing factors on the oil price. EnQuest's planning and investment decision processes cater for low oil price scenarios, and include a carbon cost associated with forecast emissions. Where new assets are acquired, there will be a clear emissions reduction plan for any such asset for which EnQuest assumes operatorship, relative to the carbon footprint in the hands of the seller, and the Group factors in an associated carbon price into the acquisition economics, even in markets where no carbon trading or pricing mechanism exists. In the short to medium term, EnQuest reviews the impact of different oil prices in its going concern and viability statements. Other financial risks of climate change considered include access to, and cost of, capital, insurance and decommissioning surety bonds as investors' and insurers' appetite for exposure to the oil and gas sector reduces. In addition, the cost of emissions trading allowances may trend higher. With respect to physical risks of climate change to the Group's business, the Group is aware of potential risks associated with rising sea levels, tidal impacts and extreme weather events which could cause damage and destruction to its ageing offshore assets, particularly as these events become more regular and extreme in nature, but considers these risks to be low given the Group's focus on asset integrity and the expected remaining life of these mature assets.	Pages 01 to 23, 30 to 37 and 52

TCFD framework	EnQuest disclosures	Reference
Risk Management • Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The Group has robust risk management and business planning processes that are overseen by the Board, the Safety, Climate and Risk Committee and the Executive Committee in order to identify, assess and manage climate-related risks. The Group's RMF is embedded in all levels of the organisation with asset, regional and functional risk registers aggregating to an enterprise risk register identifying relevant threats and how they are mitigated, whilst the adequacy and efficacy of controls in place are themselves also monitored. This integration enables the Group to quickly identify, escalate and appropriately manage emerging risks. The Safety, Climate and Risk Committee provides a forum for the Board to review selected individual risk areas in greater depth. Indeed, climate change is now categorised as a standalone risk area within the Group's 'Risk Library' allowing the application of EnQuest's RMF to underpin its approach in this important area. For each risk area, the Safety, Climate and Risk Committee reviews 'Risk Bowties' that identify risk causes and impacts and maps these to preventative and containment controls used to manage the risks to acceptable levels. Climate change-related issues are also considered within the context and review of a number of other risk areas.	Pages 46 to 59 and 105 to 106
Metrics and targets • Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets.	EnQuest has reported on all of the emission sources within its operational control, as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In the UK, EnQuest publishes its annual Environmental Statement in line with the regulatory requirement under the OSPAR recommendation 2003/5. These statements, which can be found in the Environmental, Social and Governance section on the Group's website www.enquest.com, are an open and transparent representation of the environmental performance across EnQuest's UK operations. The Group recognises that the ability to reduce carbon emissions is constrained by the original design of its later-life assets. However, the Board has approved a targeted 10% reduction in EnQuest's absolute Scope 1 and 2 emissions from its existing portfolio over three years, from a year-end 2020 baseline, with the achievement of this target linked to reward.	Pages 04, 10 to 15, 32 to 37, 82 to 101, 105 to 106 and 112 to 113

Stefan Ricketts
Company Secretary

The Strategic report was approved by the Board and signed on its behalf by the Company Secretary on 24 March 2021.

Board of Directors

Martin Houston

G R T

Non-Executive Chairman
Appointed 1 October 2019

Key strengths and experience
- In-depth knowledge of the energy industry and a wealth of board-level and international business experience

Martin joined BG Group plc in 1983 and enjoyed a 32-year career before retiring as chief operating officer and a member of the board of directors. He holds, and has held, many FTSE and international board or senior advisory positions. Martin's other interests include being a council member of the National Petroleum Council of the United States of America, a member of the advisory board of the Global Energy Policy unit at Columbia University's School of International and Public Affairs, New York and a Fellow of the Geological Society of London.

Principal external appointments
Co-founder and vice-chairman of Tellurian Inc. Non-executive director of CC Energy. In an advisory capacity, he is the global energy chairman of Moelis & Company.

Amjad Bseisu

G

Chief Executive
Appointed 22 February 2010

Key strengths and experience
- Extensive energy industry and leadership experience

Amjad worked for the Atlantic Richfield Company ('ARCO') from 1984 to 1998, eventually becoming president of ARCO Petroleum Ventures. In 1998, he founded and was the chief executive of Petrofac Resources International Limited which merged into Petrofac PLC in 2003. In 2010, Amjad formed EnQuest PLC, having previously been a founding non-executive chairman of Serica Energy plc and a founding partner of Stratic Energy Corporation. Amjad was chairman of Enviromena Ltd., the largest solar power engineering company in the MENA region, until its sale in 2017 and was British Business Ambassador for Energy from 2013 to 2015.

Principal external appointments
Chairman of the independent energy community for the World Economic Forum since 2016. Director of The Amjad and Suha Bseisu Foundation since 2011.

Jonathan Swinney

Chief Financial Officer
Appointed 29 March 2010

Key strengths and experience
- Significant capital markets and merger and acquisition transactional experience

Jonathan 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 worked in roles with a focus on acquisition finance. Jonathan's previous roles include Credit Suisse and then Lehman Brothers, advising on a wide range of transactions with equity advisory, before joining Petrofac Limited in April 2008 as head of mergers and acquisitions for the Petrofac Group. Jonathan joined EnQuest PLC in 2010 as Chief Financial Officer.

Principal external appointments
None.

Howard Paver

R A G T

Senior Independent Director
Appointed 1 May 2019[1]

Key strengths and experience
- 40 years' global experience in E&P, including 20 years at senior executive level

Howard is a petroleum engineer and began his professional career at Schlumberger before moving to Mobil and then BHP Petroleum, where he was regional president, Europe, Russia, Africa & Middle East, and before becoming president, global exploration & alliance development. He most recently served as SVP, strategy, commercial & business development at Hess, a role he took up in July 2013, having joined the company in 2000 as SVP, north sea/international. Between 2005 and 2013 he held the position of SVP, global new business development.

1 31 March 2020, appointed as Senior Independent Director

Principal external appointments
None.

Committees key

- **A** Audit
- **G** Governance and Nomination
- **R** Remuneration and Social Responsibility
- **S** Safety, Climate and Risk
- **T** Technical and Reserves
- Denotes Committee Chair

Farina Khan

A S R

Non-Executive Director
Appointed 1 November 2020

Key strengths and experience

- Strong energy industry and financial experience, as well as deep insights into Malaysia

Farina is a Fellow of the Institute of Chartered Accountants Australia and New Zealand. She started her career in 1994 with Coopers & Lybrand, Australia, before returning to Malaysia in 1997 to join PETRONAS where she held various senior positions. Farina was chief financial officer of PETRONAS Carigali Sdn. Bhd, one of the largest subsidiaries of PETRONAS with operations in over 20 countries and has also been Chief Financial Officer at PETRONAS Exploration and Production. From 2013, Farina was the Chief Financial Officer of PETRONAS Chemical Group Berhad, the largest listed entity of PETRONAS. Farina left PETRONAS in 2015 to pursue non-executive opportunities.

Principal external appointments

Member of the boards of the following Malaysian listed companies: PETRONAS Gas Berhad, KLCC Property Holdings Berhad, AMMB Holdings Berhad and Icon Offshore Berhad.

Philip Holland

S T

Non-Executive Director
Appointed 1 August 2015

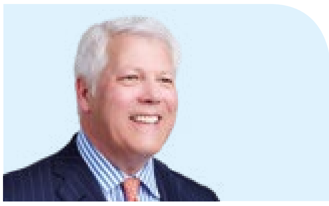
Key strengths and experience

- Significant experience in managing large-scale oil and gas projects around the globe

Philip joined Bechtel Corporation in 1980 and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell where, in 2009, he became executive vice-president downstream projects in Shell's newly formed projects and technology business. 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.

Principal external appointments

Chairman of Velocys plc and non-executive director of KazMunayGas.



Carl Hughes

A S

Non-Executive Director
Appointed 1 January 2017

Key strengths and experience

- Substantial audit and accounting experience in the energy sector

Carl is a Fellow of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Energy Institute. Carl joined Arthur Andersen in 1983 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.

Principal external appointments

Non-executive director and chairman of the audit and risk committee of EN+ Group IPJSC. Member of the finance and audit committee of the Energy Institute. Board member of the Audit Committee Chairs' Independent Forum. Member of the General Synod of the Church of England. Deputy chairman of the finance committee of The Archbishops' Council.

Liv Monica Stubholt

A S

Non-Executive Director
Appointed 15 February 2021

Key strengths and experience

- Extensive experience of the energy industry, public policy and governance

Liv Monica has 20 years' experience as a corporate lawyer. She started her career as an attorney before becoming political adviser to the Centre Party Finance Parliamentary Group. From 1997, she spent two years as a legal adviser to an industry alliance for private ownership before becoming partner at her original law firm. In 2005, Liv Monica moved back into politics and was Norway's Deputy Minister of Foreign Affairs for two years, followed by two years as Deputy Minister of Petroleum and Energy. Liv Monica rejoined the private sector in 2009 and held four top executive industry positions within the Aker Group in Norway including as EVP in the listed EPC contractor Kværner before moving back into law.

Principal external appointments

Partner at the Oslo-based law firm Selmer. Sits on a number of private company boards, industrial boards and academic committees including as chairperson of Fortum Oslo Varme and Silex Gas Norway. Member of the board of OKEA ASA (listed on the Oslo Stock Exchange).

John Winterman

T S

Non-Executive Director
Appointed 7 September 2017

Key strengths and experience

- Extensive technical leadership experience in global exploration, business development and asset management

John is a member of the American Association of Petroleum Geologists. John joined Occidental in 1981 as a geologist with the company and had a strong record of exploration success globally with over two billion barrels of oil equivalent discovered in the Philippines, Indonesia, Bangladesh, Malaysia, Russia, the US and Yemen. After a 20+ year technical career, John moved into executive roles, including high-level executive leadership positions. John left Occidental in 2013 and since then he has provided strategic advice to international oil and gas companies.

Principal external appointments

Non-executive director of CC Energy.

Executive Committee

Bob Davenport

Managing Director – North Sea

Key strengths and experience
- Extensive international experience leading large upstream development projects
- Strong operational and engineering experience

Bob joined EnQuest in 2015 and is currently responsible for the Group's UK North Sea business. He has extensive international experience in upstream, with prior roles including: Managing Director – Malaysia, leading the Group's Malaysia business; and operations director – North Sea and managing director – Khalda JV at Apache Corporation, where he led the largest oil and gas producer in Egypt's western desert.

Stefan Ricketts

Commercial and Legal Director. Company Secretary

Key strengths and experience
- Extensive international legal and commercial experience in energy and natural resources in all phases of development and operations
- Transaction management across corporate finance, debt finance, mergers and acquisitions and project development

Stefan joined EnQuest in 2012. He is a solicitor and has previously been a partner in a major international law firm and a General Counsel in a FTSE 100 energy company. He has responsibility for the commercial and legal affairs of the Company, and holds the offices of General Counsel, Company Secretary and Chief Risk Officer.

Imran Malik

Vice President – Finance

Key strengths and experience
- Over 25 years of international oil and gas experience across a range of functions
- Member of the Institute of Chartered Accountants of England and Wales and a Chemical Engineer

Imran joined EnQuest in 2015 as Vice President – Finance, and is responsible for ensuring that the Company has the necessary financial capacity and capabilities in place to deliver on EnQuest's strategy. He has over 25 years of international oil and gas experience across a range of functions, including group and operational finance, project services, contracts and procurement, and general management responsibilities across the entire value chain.

Martin Mentiply

Business Development Director

Key strengths and experience
- Over 20 years' experience in senior technical and commercial roles
- Extensive geographical experience

Martin joined EnQuest in 2016 and is responsible for all business development-related activities across the Group. He has over 20 years of broad international oil and gas operator experience. Throughout 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.

Richard Hall

Managing Director – Malaysia

Key strengths and experience
- Significant international experience
- Senior positions held in operations, field development and project roles

Richard rejoined EnQuest in December 2020 and has overall responsibility for EnQuest's Malaysian business, having previously worked for EnQuest as part of the Executive Committee as Head of Major Capital Projects where he was instrumental in taking Kraken from project concept stage through to production. Previously, Richard had roles at Petrofac, including: vice president of operations & developments; and general manager in Malaysia, where he started Petrofac Malaysia. Richard went on to be co-founder and CEO of Malaysia-focused Nio Petroleum and was also one of four founders and operations director of the service company UWG Ltd.

Janice Mair

Director of People, Culture & Diversity

Key strengths and experience
- Strong experience in the energy sector
- A Fellow of the Chartered Institute of Personnel and Development

Janice joined the Executive Committee in August 2020 after two years as UK Head of Human Resources. She has held HR leadership roles in a variety of sectors, including oil and gas and transportation. Prior to joining EnQuest, Janice was head of HR for Repsol Sinopec Resources. She also holds a masters of law degree in employment law and a BA in hospitality management.

Salman Malik

Vice President, Strategy And Corporate Development, International Business Development

Key strengths and experience
- Corporate strategy, investment management, corporate finance and mergers and acquisitions experience across the energy value chain
- Chartered Financial Analyst Charterholder

Salman joined EnQuest in 2013 and is responsible for the Group's strategy, corporate finance and mergers and acquisitions. He has extensive experience in structured finance, acquisitions, post-acquisition management and divestitures across the energy value chain. He has also held several positions in the private equity and investment banking industry.

Chairman's letter

> EnQuest views corporate governance as an essential part of its framework and continues to strengthen its procedures in this important area.

Martin Houston
Chairman

Dear fellow shareholder

On behalf of the Board of Directors (the 'Board'), I am pleased to introduce EnQuest's Corporate Governance Report. 2020 has been a challenging year and I would like to extend my thanks to the staff, senior management and Directors of the Company for their resilience and achievements over the period. Through necessity, much of the Company has needed to adapt to working remotely, while those who work offshore have been required to adjust to additional mobilisation and offshore protocols. Through their hard work, they have ensured that the Company continues to function effectively and efficiently. This has taken a tremendous effort and has certainly been recognised and appreciated by me and the Board. For more information about the Company's response to COVID-19, including the 2020 consultation process, please see pages 09 and 16.

I met with a number of our principal shareholders during the year, albeit remotely rather than in person, and appreciated their insights and sentiments, particularly as we were developing a refreshed and more succinct statement of the Company's purpose and refining our Environment, Social and Governance ('ESG') philosophy. They have indicated that they have been impressed by the Group's responsiveness in adapting to the rapid changes in the external environment, and at the same time maintaining a high level of operational performance and reducing debt. Since then, I've also received positive feedback on the Company's revised purpose statement. While EnQuest was unable to physically host shareholders at our AGM in May 2020 and will be unable to do so at the coming 2021 AGM, it is hoped that in the future, we will be able to meet with all our shareholders who wish to join us.

Over 2020, in addition to the activities outlined in the Strategic report (pages 01 to 63), the Board focused on ESG issues. The Board considered how EnQuest demonstrates its commitment to ESG matters in a transparent manner. In doing so, it agreed to strengthen the remits of the current Board-level Committees to ensure that its efforts across this arena is aligned with its purpose and the expectations of our stakeholders, while maintaining our delivery against our strategy. The Committees have also been renamed to reflect their refreshed mandates. The Governance and Nomination Report on pages 102 to 104 contains more detail of how this was approached and implemented by the Board. Company-wide ESG activities can be found on pages 32 to 45, while, more Board-focused activities are set out below:

In line with these changes, we have simplified how we report our corporate responsibility performance. The activities previously reported under the categories of Health and Safety, People, Environment, Business Conduct and Community are now under the headings of 'Environmental', 'Social' and 'Governance', see pages 32 to 45. The Board has approved the Company's overall approach to corporate responsibility, receives regular information on the performance of the Company in these areas, and specifically monitors health, including asset integrity, and safety and environmental reporting at each Safety, Climate and Risk Committee and Board meeting.

Environmental

Environmental protection has been a core feature of EnQuest's business model since its inception, with the priority being SAFE Results with no harm to people and respect for the environment. Climate change and emissions reductions are clearly areas of focus for the Company, recognising that industry, alongside other key stakeholders such as governments, regulators and consumers, must all contribute to reducing carbon-related emissions. To balance all stakeholder interests, EnQuest believes in a measured approach to absolute emissions reductions from its existing producing assets, involving credible targets and the pursuit of economic emission reduction opportunities. As such, the Group aims to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023. This target has been included as a key performance metric in the Group's long-term incentive scheme.

Social

The employee forum continues to improve engagement between the workforce and the Board. It has been an integral part of how we've navigated through the COVID-19 crisis and the Group's UK transformation programme. We have been at pains to ensure that our staff were supported throughout. The Board receives a report, following each meeting, from Philip Holland and Farina Khan, the designated Board members who attend the forum on a regular basis. Whilst not all forum discussions necessitate Board-level action, the Board, when appropriate, will act. For example, a Management Expectations document was developed to help those who were new to management and to provide a refresher for those who were more experienced but wished for extra guidance, especially in managing staff remotely during this period.

Governance

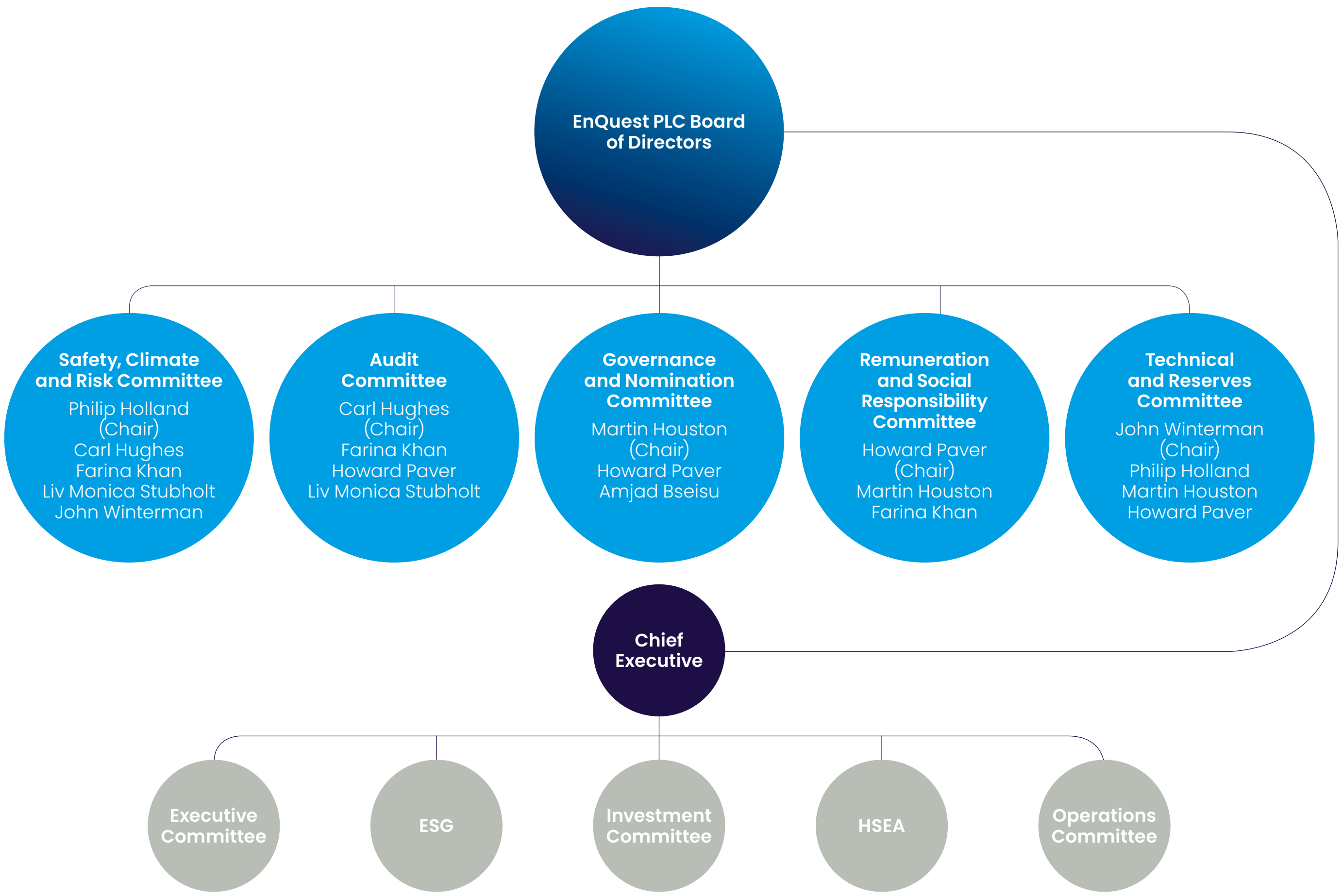
EnQuest views corporate governance as an essential part of its framework, supporting risk management and the Company's core Values. Our governance framework also contains non-Board Committees which provide advice and support to the Chief Executive on the development, implementation and monitoring of the Group's strategy, including an Executive Committee; Health, Safety, Environmental and Assurance ('HSEA') Committee; Operations Committee; and Investment Committee.

The Board regularly considers how it operates and whether there is an appropriate composition of members. Rotation of, and succession for, the Directors is kept under review by the Nomination and Governance Committee. Since publication of the 2019 Annual Report we have welcomed Farina Khan and Liv Monica Stubholt as additional Non-Executive Directors. Each will ably strengthen the Board's capabilities and will ensure a diverse debate within the Boardroom. My thanks to Helmut Langanger who, as anticipated in last year's Annual Report, left in March 2020, and also to Laurie Fitch. Laurie stepped down from the Board in January 2021 having been instrumental in working alongside the Company's employee forum. She also served as Remuneration Committee Chair, prior to Howard Paver, Senior Independent Director, assuming the role. Please see the Nomination and Governance Report for more information on the appointment of our new Directors.

Further information relating to the operation of the Board and its Committees can be found in the following governance pages of this Annual Report. Individual Committee reports are on pages 75 to 81 (Audit), pages 82 to 101 (Remuneration and Social Responsibility), pages 102 to 104 (Governance and Nomination), pages 105 to 106 (Safety, Climate and Risk) and pages 107 to 108 (Technical and Reserves).

While this has been a challenging year, we have taken important steps to secure and develop our business and forward strategy. We have refined our approach to corporate responsibility and governance around ESG and we remain cognisant of the evolving regulatory landscape, especially in this area. Finally, we have focused on our refreshed purpose. In summary, despite the limitations placed on the business by COVID-19 and the prevailing commodity environment, we have made good and solid progress.

Martin Houston
Chairman
24 March 2021



Corporate governance statement

Statement of compliance

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 Directors are cognisant of their duties to stakeholders under Section 172 of the Companies Act 2006 and the manner in which the Directors have regard to the Company's key stakeholders can be found throughout this Annual Report. The Section 172 Statement can be found on page 02. The Company complies with the Financial Reporting Council's UK Corporate Governance Code 2018 (the 'Code') which was effective for accounting periods beginning on or after 1 January 2019. The Code can be found on the Financial Reporting Website at www.frc.org.uk. Detailed below is EnQuest's application of, and compliance with, the Code. In order to avoid duplication, cross-references to appropriate sections within the Annual Report are provided.

Key corporate governance activities in 2020	Details
Succession planning and Board composition	Farina Khan, Non-Executive Director, was appointed on 1 November 2020 Howard Paver was appointed as Senior Independent Director on 31 March 2020 and as Chair of the Remuneration and Social Responsibility Committee on 21 May 2020 Search for an additional Non-Executive Director (Liv Monica Stubholt appointed 2021) Review of Board Performance and Board diversity discussions
Board Committees	Review of membership Review of responsibilities in relation to ESG matters, including updates to terms of reference Review of Committee performance
Shareholder engagement	Chairman, Senior Independent Director and Remuneration Chair and Executive Director meetings
Employee workforce and employee culture	Employee surveys Collective consultation Company purpose Engagement with the employee forum

Board leadership and Company purpose

The Board takes seriously its roles in promoting the long-term success of the Company, generating value for shareholders, having regard to the interests of other stakeholders and contributing to wider society. How the Company manages these areas can be found in the Strategic report, in particular on pages 02 to 03.

The Board is responsible for:
- The Group's overall purpose and strategy;
- Health, safety and environmental performance;
- Review of business plans and trading performance;
- Approval of major capital investment projects;
- Acquisition and divestment opportunities;
- Review of significant financial and operational issues;
- Review and approval of the Company's financial statements;
- Oversight of control and risk management systems;
- Succession planning and appointments; and
- Oversight of employee culture.

Board agenda and key activities throughout 2020

During 2020, the majority of Board meetings were, by necessity, held by videoconference. 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 2020
• HSEA • Key project status and progress • Responses to oil price movements • Strategy • Key transactions • Financial reports and statements • Production • Operational issues and highlights • Cessation of production decisions • HR issues and developments • Key legal updates • Assurance and risk management • Investor relations and capital markets update • Liquidity • Employee Forum activities	• Company purpose • COVID-19 considerations • 2020 UK staff collective consultation • 2020 performance and 2021 budget reviews • Review of plans for debt amortisation • Compliance with debt covenants and liquidity • Hedging strategy and policy • HSEA policy and culture review • Risk, going concern and long-term viability review • Strategy sessions held in October • Growth opportunities • Sullom Voe Terminal operations • Decommissioning activities • Risk Management Framework • Cyber-security related process and controls • Annual anti-corruption review • Employee culture and Values • Succession planning • Periodic updates on corporate regulatory changes and reporting requirements • Asset integrity review • ESG strategy and emissions reduction • S.172 principal decisions • Heather and Thistle cessation of production • Board diversity

The Board delegates a number of responsibilities to its Audit Committee, Remuneration and Social Responsibility Committee, Governance and Nomination Committee, Technical and Reserves Committee and Safety, Climate and Risk Committee. Membership for each Committee, which is reviewed by the Governance and Nomination Committee on a regular basis, is found on page 69. The Chair 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, each of which has been revised since the last Annual Report, are available on the Company's website, www.enquest.com, under Corporate Governance.

Culture

The Board ensures that the culture of the Company is aligned with its purpose, Values and strategy. EnQuest's Values embody the ethos of the Company and the Board carefully monitors and promotes a positive culture. The Board believes that engaged and committed employees are integral to the delivery of the Company's business plan. In line with this there was a consultation process as the Company's new expression of its purpose was developed. To make additional progress in this area of employee engagement and culture, a short employee pulse survey was conducted in October 2020 with a longer, more extensive survey, held in February 2021. The results of the survey are discussed in more detail on page 41. In addition, the Employee Forum met a number of times over the year and has provided valuable feedback to the Board, which receives updates at each Board meeting. More detail on the activities and outputs of the forum can be found on page 42.

EnQuest's Code of Conduct underpins the governance and ethos of the Company. All personnel are required to be familiar with the Code of Conduct, which sets out the behaviours that the organisation expects of those who work at and with the Company. The Group's Values complement the behaviours contained within the Code and are a key part of the Group's identity. They guide the workforce as they pursue EnQuest's strategy and delivery of SAFE Results.

Stakeholder engagement

In line with the COVID-19-related restrictions in place from March on face-to-face meetings, engagement activities were primarily conducted virtually through the use of video and telephone conference calls. EnQuest continued to have an active and constructive dialogue with its shareholders throughout the year. This was conducted through a planned programme of investor relations activities, including meetings with significant shareholders with regard to the Group's evolving purpose statement, its Environmental, Social and Governance progress and philosophy, growth and debt management strategies and Remuneration Chair introductions, along with consultation with institutional shareholders as to Remuneration Policy updates.

Throughout 2020, a number of equity and debt investor and research analyst engagements were undertaken. The Company also delivered presentations alongside its half-year and full-year results, copies of which are available on the dedicated section of the Company's website, which can be found under 'Investors' at www.enquest.com, as well as ad hoc presentations at investor conferences. The Group's results meetings are followed by investor roadshows with existing and potential new investors, supplemented in 2020 by a dedicated in-house targeting exercise to identify such potential new investors. These meetings, which take place throughout the year, other than during closed periods, are organised directly by the Company, via brokers and in response to direct investor requests.

EnQuest's Investor Relations team and Company Secretarial department respond to queries from shareholders, debt holders, analysts and other stakeholders, all of whom can register on the website to receive email alerts of relevant Company news. EnQuest's registrar, Link Group, also has a team available to answer shareholder queries in relation to technical and administrative aspects of their holdings, such as shareholding balances. The Board is routinely kept informed of investor feedback, broker and analyst views and industry news in a paper submitted at each Board meeting by the Company's Investor Relations team and as required on an ad hoc basis.

The Group's employee forum was chaired in 2020 by Board members Laurie Fitch and Philip Holland. Over the year it discussed flexible working arrangements, employee communications and recognition and diversity. The output from these meetings and other culture activities, such as the employee survey, is reported on pages 41 to 42 of this Annual Report.

The Board is also kept informed of relevant developments relating to other stakeholder groups such as suppliers, regulators, partners and governments, as required by the Executive Directors and/or the appropriate functional management, and considers potential impacts on these groups of principal decisions made during the course of the year (see pages 02 to 03 for more details).

Workforce concerns

Through tone at the top, open discussions as to the Company's purpose, regular briefings which include an opportunity for the workforce to ask questions of management, the promotion of its Code of Conduct and Values and the adoption of communication media, such as Yammer, the Company seeks to set positive, appropriate standards of conduct for its people within an open, dynamic and inclusive culture. The Company encourages all employees to escalate any concerns and, as part of its whistleblowing procedure, provides an external 'speak-up' reporting line which is available to all employees in the UK, Malaysia and the UAE, and allows for anonymous reporting through an independent third party. Where concerns are raised, these are investigated by the Company's General Counsel and reported to the Chairman of the Audit Committee with follow-up action taken as soon as practicable thereafter. Furthermore, the Company is committed to behaving fairly and ethically in all of its endeavours and has policies which cover anti-bribery, anti-corruption and tax evasion. 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 employees of their obligations and also to prompt them to complete a compulsory online anti-corruption training course. Additional information can be found on page 60 of the Strategic report and in the Code of Conduct which is available on the Company's website (www.enquest.com).

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 provisions relating to Directors' interests in the Companies Act 2006, all 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. A register of relevant interests of Board members is maintained and the Board is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently and considers the issue of conflicts at the start of every Board meeting. In addition, the Directors are required to obtain Board approval before accepting any further external appointments. Demands on a Director's time are also taken into account before approval is given.

Board education

All Directors receive an induction pack and meet with management on joining the Company. They are also offered director training and memberships of organisations which deliver knowledge and training to non-executive directors, should they wish it. Education is also provided from time to time by the Company Secretary; for example, most recently a session was held with external counsel to discuss with the Board a range of legal and regulatory matters pertinent to the discharge of their duties.

Division of responsibilities

There is a clear division of responsibilities between the leadership of the Board and the executive leadership of EnQuest. The roles of the Chairman and Chief Executive are not exercised by the same individual.

Chairman
The Chairman is responsible for the leadership of the Board, setting the Board agenda and ensuring the overall effective working of the Board. The Chairman holds regular one-to-one and group meetings with the Non-Executive Directors, without the Executive Directors present.

Chief Executive
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.

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 or the Executive Directors has failed to resolve an issue, or where such contact is inappropriate. The SID acts as a sounding board for the Chairman and also conducts the Chairman's evaluation on an annual basis.

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 executive and senior management. This is critical for providing assurance that the Executive Directors are exercising good judgement in delivery of strategy, risk management and decision making. They receive a monthly report on Company performance and updates on major projects, irrespective of a meeting taking place, which allows them to monitor performance regularly. In addition, they hold to account the performance of management and individual Directors against agreed objectives and assess and monitor the culture of the Company. All Directors of EnQuest have been determined to have sufficient time to meet their responsibilities and this is monitored on a regular basis. At the date of this report there are nine Directors, consisting of two Executive Directors and seven Non-Executive Directors (including the Chairman).

Independence
The Chairman was independent on appointment and 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 64 to 65.

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 assists with the ongoing training and development of the Board and is instrumental in facilitating the induction of new Directors. The appointment and removal of the Company Secretary is a Board matter. The Company Secretary supports the Chairman in the provision of accurate and timely information. Board agendas are drawn up by the Company Secretary in conjunction with the Chairman and with agreement from the Chief Executive. All Board papers are published via an online Board portal system which offers a fast, secure and reliable method of distribution.

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 2020.

	Board meetings	Audit Committee	Remuneration and Social Responsibility Committee	Safety, Climate and Risk Committee	Governance and Nomination Committee	Technical and Reserves Committee
Meetings considered by the Board	6	3	4	4	10	7
Executive Directors						
Amjad Bseisu	6	–	–	–	10	–
Jonathan Swinney	6	–	–	–	–	–
Non-Executive Directors						
Martin Houston	6	–	4	–	10	7
Farina Khan[1]	1/1	1/1	–	1/1	–	–
Helmut Langanger[2]	2/2	1/1	2/2	–	2/2	–
Howard Paver	6	3	4	–	10	7
Laurie Fitch[3]	6	–	4	4	–	–
Philip Holland	6	–	–	4	–	7
Carl Hughes	6	3	–	4	–	–
John Winterman	6	3	–	–	–	7

Notes:
1 Farina Khan joined the Board on 1 November 2020
2 Helmut Langanger stepped down from the Board on 31 March 2020
3 Laurie Fitch stepped down from the Board on 8 January 2021 at the end of her tenure in accordance with her letter of appointment

Board Committees

The Governance and Nomination Committee

The Governance and Nomination Committee leads the process for appointments and regularly reviews the structure, size and composition of the Board. It also considers succession planning for the Executive Committee and has now expanded its scope to cover all aspects of the Governance Code. The work of the Governance and Nomination Committee, including information regarding Boardroom diversity, recruitment and the Board annual evaluation process, is on pages 102 to 104.

The Audit Committee

The work of the Audit Committee is on pages 75 to 81.

The Audit Committee is responsible for the following internal control and 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.

The Safety, Climate and Risk Committee

The Safety, Climate and Risk Committee continues to progress its comprehensive Risk Management Framework and has conducted a robust assessment of the principal risks facing the Group; see pages 45 to 59 of the Strategic report for further information. The work of the Committee, which includes monitoring HSEA issues and oversight of decarbonisation matters, is on pages 105 to 106.

The Technical and Reserves Committee

The Technical Committee was established in October 2019 and provides the Board with additional technical insight when making Board decisions. The work of the Committee can be found on pages 107 to 108.

The Remuneration and Social Responsibility Committee

The Remuneration and Social Responsibility Committee has assessed the Group's performance for 2020 in determining the appropriate performance-related compensation. It has continued its programme of open and transparent shareholder dialogue and assessment of institutional shareholder guidelines as it developed its updated Remuneration Policy, ahead of the scheduled update for the Annual General Meeting ('AGM') in 2021. In addition, its scope was recently expanded to review matters relating to social responsibility, including human rights, working conditions, workforce relations and engagement with local communities and other stakeholders. The work of the Remuneration and Social Responsibility Committee is set out on pages 109 to 113.

2020 Annual Report and Accounts

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 ordinarily attended by the Directors and executive and senior management and would normally be open to all EnQuest shareholders to attend. It is, however, anticipated that the 2021 AGM will be held virtually, subject to COVID-19 regulations. Please see the AGM's Notice of Meeting for the latest participation instructions.

Audit committee report

> The Committee has continued to provide robust review and challenge of the Group's financial reporting processes, while monitoring the effectiveness of EnQuest's controls and risk management framework.
>
> **Carl Hughes**
> Chairman of the Audit Committee

Dear fellow shareholder

The agenda of the Audit Committee continues to evolve in the context of the regulatory requirements from the UK Corporate Governance Code (the 'Code'), the Financial Reporting Council's ('FRC') Guidance on Audit Committees, the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, Ethical Standards and the Competition and Markets Authority.

During 2020, the Committee has undertaken a self-assessment of its effectiveness in line with the requirements of the Code and to enable its members to:

- Assess that the establishment, memberships and appointment of the Committee are in line with good practice;
- Confirm that the scope/responsibilities of the Committee are appropriate;
- Establish that the Committee is operating as it should, including meetings, resources and its relationship with Board; and
- Ensure that the Committee is appropriately communicating information to shareholders and has considered wider stakeholders in its decision-making activities, reflecting the Committee members' attention to Section 172 of the Companies Act 2006.

This assessment confirms that the Committee is functioning as expected, which the Board also endorsed. The Committee proposed that an additional (fourth) meeting should be held when appropriate to ensure that adequate time is dedicated to the key issues.

The Committee has focused on the liquidity and financial performance of the Group in a challenging environment. Issues considered included the impact on oil and gas accounting judgements and asset carrying values from volatile commodity prices, given changes in supply and demand as a result of COVID-19 and other factors such as the energy transition to a lower-carbon economy. The Committee also continued to monitor the Group's system of internal control as well as reviewing and challenging disclosures and key judgements made by management. The Committee's work and the Company's audit, assurance and compliance frameworks have enabled EnQuest to maintain the integrity of the Group's financial and internal controls.

Other key activities of the Committee during:

- Overseeing the establishment of an internal audit function within EnQuest, focusing on the effectiveness of a number of Group functions including financial reporting, tax, decommissioning, production and reserves reporting;
- Reviewing the internal audit assurance map against principal risks;
- Assessing the Group's additional control enhancements and evaluation of internal controls to enable the external auditor to place increased reliance on the Group's internal control environment;
- Reviewing financial liquidity risk and key assumptions in cash flow forecasts with respect to the going concern and viability assessments, particularly in light of the impact of COVID-19 on the global economy and the Group's upcoming debt maturities. This included an internal audit review of the underlying corporate model;
- Reviewing the Group's cyber security activities, examining key risks, associated mitigations and future plans; and
- Robustly challenging management reports on significant accounting issues and judgements, such as impairment of assets and goodwill and valuation of decommissioning cost estimates, enabling it to determine whether EnQuest's financial reporting is 'fair, balanced and understandable'.

Following the external audit tender exercise in 2019, the transition to Deloitte LLP ('Deloitte') from Ernst & Young LLP ('EY') was completed in 2020. The Committee met with both EY and Deloitte during 2020 as the transition occurred to ensure effective management of change. This included inviting Deloitte to attend the March 2020 Audit Committee meeting. The Committee monitored Deloitte's work as they established their detailed approach, which included their reliance on controls in certain areas, and it met regularly with the Deloitte audit partner.

Audit committee report continued

The Committee's membership changed during the year, with Helmut Langanger retiring from the Board and the Committee in March 2020 and Farina Khan joining the Board and the Committee in November. I would like to thank Helmut for his contribution during his tenure and I welcome Farina, who brings a wealth of experience from her extensive career in the oil and gas industry. In February 2021, we welcomed Liv Monica Stubholt to the Board and Committee, who has significant oil and gas knowledge from an extensive legal career.

As discussed within the Corporate governance statement, the Audit Committee is pleased to confirm that the actions of the Committee were, and continue to be, in compliance with the Code and that it is satisfied with the formal and transparent policies and procedures in place. Furthermore, the Committee ensured that key judgements and estimates made in the financial statements, such as the recoverable value of the Group's assets, were carefully assessed.

The Audit Committee's core responsibilities, which are reviewed annually and can be found on the Company's website (www.enquest.com; under Corporate Governance within the Investors section), 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 system of internal control and the Risk Management Framework;
- Review the adequacy of the Company's arrangements for whistleblowing and procedures for detecting fraud;
- Monitor and review the effectiveness of the external and internal audit;
- Monitor and review the summary findings from joint venture audits;
- Oversee the relationship with the external auditor, including fees for audit and non-audit services and assessing annually their independence and objectivity;
- 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;
- Monitor and review the process of the assessment of the Group's proven and probable reserves by a recognised Competent Person; and
- Self-assessment of its effectiveness.

There will continue to be much for the Committee do in 2021. After considering the priorities for 2021, the Committee has directed internal audit to focus on, amongst other areas, the review of trading activities, GDPR compliance, UK anti-bribery and corruption compliance and the Thistle field's readiness for decommissioning in addition to the ongoing rotational review of the financial control framework.

We will also be giving careful consideration to the Consultation Document issued by BEIS in March 2021 entitled 'Restoring trust in audit and corporate governance', which addresses many of the recommendations arising from the recent reviews of audit and governance led by Sir John Kingman, Sir Donald Brydon and the Competition and Markets Authority. In particular, the Committee will be giving early consideration to the development of an Audit and Assurance Policy for the Group covering assurance relating to risk and internal control, assurance over external reporting and the budget and resources committed to assurance.

Carl Hughes
Chairman of the Audit Committee
24 March 2021

Committee composition

As required by the Code published in July 2018, the Committee exclusively comprises Non-Executive Directors, biographies of whom are set out on pages 64 and 65. The Board is satisfied that the Chairman of the Committee, previously an energy and resources audit partner of Deloitte, 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, appointment dates and attendance at the three scheduled meetings held during 2020 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Carl Hughes	1 January 2017	3
John Winterman[1]	7 September 2017	3
Howard Paver	1 May 2019	3
Farina Khan[2]	1 November 2020	1/1
Liv Monica Stubholt[3]	15 February 2021	–
Helmut Langanger[4]	16 March 2010	1/1

Notes:
1 John Winterman stepped down as a member of the Audit Committee on 9 December 2020
2 Farina Khan was appointed as a Non-Executive Director on 1 November 2020, becoming a member of the Audit Committee
3 Liv Monica Stubholt was appointed as a Non-Executive Director on 15 February 2021, becoming a member of the Audit Committee
4 Helmut Langanger stepped down as a member of the Audit Committee on 31 March 2020 when he retired from the Board

Meetings are also normally attended by the General Counsel and Company Secretary, the Chief Financial Officer, the Vice President-Finance, the external auditor, the internal audit manager and other key finance team members as required. The Chief Executive and the Chairman of the Board also attend the meetings when invited to do so by the Committee. PricewaterhouseCoopers LLP ('PwC'), in its role as internal auditor for certain specialist areas during 2020, 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 internal audit (both the internal audit manager and the PwC partner) to discuss matters relevant to the Company.

The Committee continues to monitor its own effectiveness and that of the functions it supports on a regular basis. Through the review of the terms of reference of the Audit Committee, regular meetings with the internal and external auditors and key management personnel, the Committee has concluded that its core duties in relation to financial reporting, internal controls and risk management systems, whistleblowing and fraud, internal audit, external audit and reporting responsibilities are being performed well.

Audit Committee meetings

In line with the Committee's annual schedule, since the Committee last reported to shareholders, three meetings have been held. All meetings were held by video conference given COVID-19 restrictions. A summary of the main items discussed in each meeting is set out in the table below:

Agenda item	August 2020	December 2020	March 2021
Audit Committee self-evaluation assessment of its effectiveness	✓		
Audit Committee terms of reference	✓		
Internal audit progress against 2020/2021 plan, including findings since last meeting	✓	✓	✓
Internal audit and assurance plan for 2021		✓	
Joint venture audit plan for 2021, including summary findings since last meeting			✓
Cyber security update		✓	✓
Review and approve the external (Deloitte) audit plan, including key risks and planned approach	✓	✓	
Approve external (Deloitte) audit fees subject to the audit plan	✓		
Review the level of non-audit service fees for Deloitte	✓	✓	✓
Evaluate quality, independence and objectivity of Deloitte	✓	✓	
Review the effectiveness of external 2019 audit (EY)	✓		
Formalise appointment of external auditors		✓	
Evaluate the viability assessment			✓
Appropriateness of going concern assumption	✓	✓	✓
Review of half-year or full-year regulatory press release and results statements	✓		✓
Corporate governance update		✓	
UK audit and governance environment update in context of CMA, BEIS, Kingman and Brydon reviews	✓		
Key risks, judgements and uncertainties impacting the half-year or year-end financial statements (reports from both management and external auditor)	✓	✓	✓
Presentation on the reserves audit and evaluation of the Competent Person's independence and objectivity	✓		✓
Finance strategy and organisation update	✓	✓	
Consideration of tax strategy, policy and compliance		✓	
Review of process and controls relating to the development of the Group's internal control framework	✓	✓	✓

Fair, balanced and understandable

A key requirement of the Group's Annual Report and Accounts is for the report to be fair, balanced and understandable. In addition, the Annual Report should contain sufficient information to enable the position, performance, strategy and business model of the Company to be clearly understood, details of measurable key performance indicators and explanations of how the Company has engaged with all of its stakeholders (the Section 172 Statement). The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet these requirements, with appropriate weight being given to both positive and negative developments in the year.

With regard to these requirements, the Audit Committee has considered the robust process which operates when compiling 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 2021 to review and approve the draft 2020 Annual Report and Accounts in advance of the final sign-off by the Board.

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 executive and senior management.

These items are considered by the Audit Committee, together with reports from both management and our external auditor at each Committee meeting. The main areas considered during 2020 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 for the next three years, based on the Group's approved 2021 business plan and forecasts; • The oil price assumption, based on a forward curve of \$60.0/bbl (2021), \$58.0/bbl (2022) and \$60.0/bbl thereafter; and • Refinancing of the existing Revolving Credit Facility prior to maturity in October 2021 with a new facility and refinancing of both the High Yield and Retail Bonds in October 2023.	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 2021 Audit Committee meeting. This analysis was considered and challenged by the Committee, including, but not limited to, the appropriateness of the period covered, planning scenarios and macroeconomic assumptions were realistic, stress tests were appropriate and mitigations achievable to ensure that the Group has sufficient headroom to continue as a going concern. Whilst securing lenders' commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty. The Directors have a reasonable expectation that both the Group and the Company, will be able to continue in operation and meet their commitments as they fall due over the going concern period. The external auditors presented their findings on the conclusions drawn. The disclosures in the Annual Report concerning the viability statement and going concern assumption (see pages 30 to 31) were reviewed and approved for recommendation to the Board.
Potential misstatement of oil and gas reserves The Group has total proved and probable reserves as at 31 December 2020 of 189 MMboe. The estimation of these reserves is essential to: • The valuation of the Company; • Assessment of going concern and viability; • Impairment testing; • Decommissioning liability estimates; and • Calculation of depreciation.	During the March 2021 meeting, management presented the Group's 2P reserves, together with the report from Gaffney, Cline & Associates, the Group's reserves reviewer. The Committee considered the scope and adequacy of the work performed by Gaffney, Cline & Associates and their independence and objectivity and concurred that the estimation of reserves had been consistently applied to the financial statements.

Significant financial statement reporting issue	Consideration
Impairment of tangible and intangible assets The recoverability of asset carrying values is a significant area of judgement. These impairment tests are underpinned by assumptions regarding: • 2P reserves; • Oil price assumptions (based on an internal view of forward curve prices of $47.0/bbl (2021), $55.0/bbl (2022), $60.0/bbl (2023) and $60.0/bbl real thereafter); • Life of field production profiles and opex, capex and abandonment expenditure; and • A post-tax market discount rate derived using the weighted average cost of capital methodology. Impairment testing has been performed resulting in pre-tax non-cash impairment charges of $422.5 million.	At the March 2021 meeting, management presented the key assumptions made in respect of impairment testing and the result thereof to the Committee. The Committee considered and challenged these assumptions, in line with the challenges performed as part of the going concern and viability review. Sensitivity analysis and disclosures estimating the effect of price reductions were reviewed. Consideration was also given to Deloitte's view of the work performed by management.
Complexity of Magnus contingent consideration The contingent consideration arising on the acquisition of the Magnus field is a complex agreement funded by way of a vendor loan from BP and a future profit share arrangement. Due to the size and unique nature of the arrangement, there is a fair value calculation misstatement risk. The calculations are based on the significant reporting issues of 'potential misstatement of oil and gas reserves' and 'impairment of tangible assets' described above.	At the March meeting, the key assumptions and result of the fair value calculation, along with explanation of movements in the year, were presented to the Committee. Consideration was also given to Deloitte's view of the work performed by management.
Adequacy of the decommissioning provision The Group's decommissioning provision of $778.2 million at 31 December 2020 is based upon a discounted estimate of the future costs and timing of decommissioning of 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. In 2019, the Group commissioned Wood Group PSN to estimate the costs involved in decommissioning the facilities and infrastructure of each of its UK operated fields. These estimates were reviewed by operations personnel and adjustments were made where necessary in 2020 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. Estimates for all UK operated assets are reviewed annually, with a major review performed every third year. The estimate for PM8/Seligi was reviewed during 2020 and approved by the Malaysia Petroleum Management ('MPM'). Quarterly payments to the decommissioning fund are approved annually by MPM. A detailed review of the decommissioning costs will be performed in 2021. For Alba, the Group's only non-operated asset, the provision is based on estimates provided by the operator, adjusted as necessary by EnQuest's own operations personnel, to ensure consistency in key assumptions with the Group's other North Sea assets.	The Committee reviewed the report by management summarising the key findings and their impact on the provision. Sensitivity analysis and disclosure estimating the effect of a change in discount rates was reviewed. Regard was also given to the observations made by Deloitte as to the appropriateness of the estimates made.

Significant financial statement reporting issue	Consideration
Taxation At 31 December 2020, the Group carried deferred tax balances comprising $503.9 million of tax assets (primarily related to previous years' tax losses) and $6.4 million of tax liabilities. The recoverability of the tax losses has been assessed by reference to future profit estimates derived from the Group's impairment testing. Ring-fence losses totalling $2,064 million ($825.6 million tax-effected) have been recognised. The main drivers of the tax provision are the Deferred Tax Asset impairment and the Ring Fence Expenditure Supplement ('RFES') uplift. The last RFES claim available to the Group will be made for the year 2021. 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 and future profit estimates supporting the position taken by management. The Committee also took into account the views of Deloitte as to the adequacy of the Group's 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 Deloitte as to the appropriateness of the disclosures made. The Committee also reviewed and approved the annual update of the Group Tax Strategy (which is available in the Environmental, Social and Governance section of the Group's website at www.enquest.com) in December 2020.

Risk management

The Code requires that the Board monitors the Company's risk management 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 for the Company's emerging and principal risks. Page 74 provides more detail on how the Board, and its Safety, Climate and Risk Committee, have discharged their responsibility in this regard. The Audit Committee Chairman is also a member of the Safety, Climate and Risk Committee.

Internal control

Responsibility in respect of financial internal control is delegated by the Board to the Audit Committee. The effectiveness of the Group's internal control framework is reviewed continually throughout the year. Key features include:
- Clear delegations of authority to the Board and its sub-Committees, and to each level of management;
- Setting of HSEA, 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 Safety, Climate and 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

In early 2020, the Group established an independent and objective internal audit function within EnQuest. Prior to this, the Group outsourced its internal assurance to PwC. The Group will continue to outsource to PwC or other experts specialist areas of the internal audit programme, such as cyber security. The Group appointed an internal audit manager and the Committee monitored and reviewed the effectiveness of internal audit and considered whether it had the appropriate level of independence. The Committee is satisfied that the establishment of an internal audit function and selected outsourcing of work is appropriate for the Group. In order to ensure independence and objectivity, the primary reporting line of all assurance providers, including the Group's internal audit manager, is to the Audit Committee.

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 internal audit, an internal audit plan is determined each year. When setting the plan, recommendations from management and internal audit are considered, and take into account the particular risks impacting the Company, which are reviewed by the Board and the Safety, Climate and Risk Committee. During 2020, internal audit activities were undertaken for various areas, including reviews of:
- The Financial Control Framework across the UK, Malaysia and Dubai;
- The Heather field's readiness for decommissioning;
- The Group's cyber security;
- Non-financial disclosures, including production and reserves reporting in the Annual Report and Accounts; and
- The Group's modelling for different financial and operational events.

Detailed results from internal audit were presented to management and a summary of the findings were presented to the Audit Committee, together with copies of all internal audit reports. In all cases, the audit conclusions were that the systems and processes were satisfactory and, 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.

Areas for improvement were identified relating to cyber security and readiness for decommissioning and the Committee will be monitoring progress in these aspects of the control environment during 2021.

External audit

One of the Committee's key responsibilities is to monitor the performance, objectivity and independence of the external auditor. Each year, the Committee ensures that the scope of the auditor's work is sufficient and that the auditor is remunerated fairly. The annual process for reviewing the performance of the external audit process involves an interview or questionnaire with key members of the Group who are involved in the audit process to obtain feedback on the quality, efficiency and effectiveness of the audit. Additionally, Committee members take into account their own view of the external auditor's performance when determining whether or not to recommend reappointment.

The 2020 evaluation was the last of EY as the outgoing auditor. The effectiveness of EY was formally evaluated during the Committee's meeting in August 2020, and it was concluded that the Committee continued to be satisfied with EY's performance and the firm's objectivity and independence. The Chairman of the Committee met with the outgoing audit team to discuss key audit issues and the results from this were discussed with Deloitte to consider as part of their 2020 audit approach.

Deloitte was appointed for the statutory audit, with effect from 2020, following the tender process in 2019. The Committee monitored the transition from EY to Deloitte and oversaw and monitored Deloitte's work as they settled into their new role. Taking into account management's review and recommendations and its own experiences with the external auditor as the team undertook its first audit, the Committee were confident that Deloitte would be effective in their role and were providing the required quality in relation to the provision of audit services. The effectiveness of Deloitte will be formally evaluated during the Committee's meeting in May 2021.

In its initial evaluation of Deloitte, the Committee also considered the level of non-audit services provided by the firm during the year, the compliance with EnQuest's policy in respect of the provision of non-audit services by the external auditor (which is set out later in this report), and the safeguards in place to ensure Deloitte's continued independence and objectivity. The services provided by Deloitte in 2020 are services typically provided by a company's auditor, given their knowledge and experience of the Company and in line with the EnQuest non-audit services policy. The ratio of non-audit fees to audit fees in 2020 was 23%. As required under UK auditing standards, Deloitte confirmed their independence to the Committee.

In respect of audit tendering and rotation, the Committee has adopted a policy which complies with the Code and FRC Guidance. 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. At the AGM in May 2020, the tender process for the appointment of the external auditor for the financial year 2020, which had started in 2019, was concluded by shareholder approval for the appointment of Deloitte as the Company's external auditor for the year ending 31 December 2020.

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 given their working knowledge of the Group. 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 part of the Committee's process in respect of the provision of non-audit services, the external auditor provides the Committee with information about its policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and employees. Deloitte has reconfirmed its independence and objectivity.

The key features of the non-audit services policy, the full version of which is available on our website (www.enquest.com; under Corporate Governance within the Investors section), 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. Following a change in external auditor, the 70% cap does not apply for the first three years.

The Committee continues to review non-audit services and, in light of the revised FRC Ethical Standards, reviews the scope of work to ensure its close link to audit services.

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

Directors' remuneration report

"The Committee's focus remains ensuring reward for Executive Directors, the Executive Committee and senior managers incentivises the delivery of EnQuest's strategy and performance goals.

Howard Paver
Chair of the Remuneration and Social Responsibility Committee

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 2020.

My first year as Committee Chair has been active and challenging. The Committee's work has included the development of a new three-year Remuneration Policy (the 'Policy'), which involved the ongoing assessment of the appropriateness of the Company's total compensation package available for Executive Directors to ensure it remains aligned with our agreed remuneration principles, and continued assessment and implementation of appropriate measures to ensure ongoing compliance with the UK Corporate Governance Code (the 'Code'). The Committee also devoted significant time and attention to approving a level of reward for 2020 that was commensurate with the Company's performance, recognising the challenging external environment and the management response to the challenges presented.

The 2021 Policy is presented on pages 84 to 91 and has been produced in consultation with major shareholders and is, in my view, reflective of the culture and Values of the business. The main revisions to the policy relate to the implementation of full alignment between Executive Director pension contribution and those of the workforce, demonstrating fairness and transparency, clarification of malus and clawback provisions applied to Performance Share Plan ('PSP') awards, and a limit on the time permitted to achieve shareholding requirements to ensure direct alignment with shareholder interests in a reasonable timeframe.

We continue to undertake benchmarking analysis of all key reward components for Executive Directors and Executive Committee members ahead of the annual pay review. This benchmarking exercise, which was thoroughly debated in the boardroom and independently validated by our remuneration advisers, Mercer Kepler, satisfied the Committee that the shape and level of our remuneration practices are appropriately positioned against those of comparator companies of similar size and scope.

The Committee believes that the current remuneration structure presented in the 2021 Policy is clear, simple, and appropriately aligned with the Company's strategy, risk appetite and culture, and that incentives are appropriately capped.

The 2019 report included the required reporting of the Chief Executive pay ratio. The chosen calculation was in line with single figure methodology, also known as 'Option A'; the same methodology has been applied to the year ended 31 December 2020, resulting in a CEO pay ratio of 12:1.

Within the Strategic report, the Company has set out its intent to positively contribute towards the objective under the UK's current legislation to achieve 'net-zero' emissions by 2050. Emissions reduction targets have been included in the 2021 Company Performance Contract ('CPC') and in the three-year PSP performance conditions. The 2021 CPC also includes targets relating to the Group's culture and Values and improving workforce diversity.

The DRR has three sections:

1. This annual summary statement;
2. The Policy which is presented for shareholder approval; and
3. The Annual Report on Remuneration of the Executive Directors and Non-Executive Directors for 2020, which will be subject to an advisory shareholder vote at the 2021 AGM.

Shareholder consultation

Our programme of open and transparent shareholder dialogue continued to provide a valuable contribution to the Committee's work in developing revisions to our Policy. We are aware of current institutional shareholder guidelines on executive remuneration, and have now aligned Executive Director pension contributions with those of the wider workforce and included greater transparency around the circumstances which will be subject to malus or clawback. We have further sought to simplify performance measures for both the annual bonus and PSP and to include environmental, social and governance ('ESG') measures in both.

Response to COVID-19

The Committee considers the response of management and the workforce to the challenges presented by COVID-19 to be highly commendable. Production was not adversely affected and testing protocols were implemented for the offshore workforce in an efficient and timely way. Employees based onshore adjusted to working from home with minimal disruption, and delivered a significant programme of transformation. The Company sought no government support during the crisis and Executive Directors, the Executive Committee and senior leadership teams took a voluntary 20% reduction in salary in April, May and June 2020.

Performance and remuneration outcomes for 2020

The Company performed well across the entire range of financial and operational measures included in the CPC, with all results above target and some exceeding the stretch targets set. A measurable programme of work in relation to ESG was approved and progress on employee engagement initiatives was measured. In addition, the Group's diversity and inclusion policy was revised with an accompanying strategy developed.

However, the Committee fully understands the importance of also reflecting shareholder and employee experience through the year in its reward decisions, and acknowledged the Group's Health, Safety, Environment and Assurance ('HSEA') performance during the year was mixed. Good progress was made with leading metrics and a number of assets had strong occupational safety performance, but there was a significant incident at the PM8/Seligi asset. As a result, the Committee utilised its discretion and applied a downward revision to both the CPC outcome, and the individual performance contract ('IPC') outcomes for the CFO and other members of the Executive Committee. Performance against the CPC and associated bonus awards for the CEO and CFO are set out on pages 92 to 94 of this report and reflect the downward adjustment.

2020 annual bonus – payable in 2021

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 (CEO) was based solely on achievement against the CPC. In the case of Jonathan Swinney (CFO), 50% of his bonus award was based on the CPC and 50% on achievement against performance measures set out in his IPC. The 2020 target and maximum bonus potential for Executive Directors were 75% and 125% of salary, respectively. 2020 bonus awards of 75% of base salary (60% of maximum) have been made for both Amjad Bseisu and Jonathan Swinney. The Committee believes that these levels of award are appropriate given the outcome of the CPC and the positive management and business response to the impact of the COVID-19 crisis and oil price volatility, balanced against the shareholder and employee experience and Group HSEA performance. Taken together, this resulted in a downward adjustment to the CPC formulaic outcome and a cap being applied to the IPC. Full details of how these awards were determined is included on pages 92 to 95 of this report.

Performance Share Plan

The 2018 PSP award made to Executive Directors will vest on 24 April 2021. The three-year performance period ended on 31 December 2020 and the award will vest at 63.9% of the original award. The Committee agreed it was appropriate that the performance calculation included production and reserves growth arising out of the non-equity funded element of the 2018 acquisition of the additional 75.0% interest in Magnus. No benefit was included in relation to the portion of the acquisition funded from the net rights issue proceeds. A further adjustment was made to account for the production lost and costs saved from the strategic decision taken in the second quarter of 2020 to close production on the Heather and Thistle assets early. Taking these adjustments into account, the production growth target vested at 23.0% out of 30.0%, but the reserves growth target, which had a weighting of 10.0%, was not achieved. Total Shareholder Return ('TSR') vested at 10.9% out of 30.0%, while the net debt target, with a weighting of 30.0%, was achieved in full. Full details of actual performance against the four performance conditions of TSR, production growth, reserves growth and net debt targets are on pages 95 and 96 of this report.

A PSP award of 250% of salary for both Amjad Bseisu and Jonathan Swinney was made on 24 April 2019. The performance conditions associated with this award will be measured over the three-year performance period until 31 December 2021, with the award vesting in April 2022.

For 2020, following significant shareholder consultation, a single measure of 100% relative TSR was applied. The Committee had previously indicated its intention to use its discretion to increase the weighting of TSR from 30% to 50% and re-weight production growth and reserves growth downwards to 15% and 5% respectively, with the reduction in net debt intended to stay at 30% weighting. However, engagement with shareholders in relation to the process of making awards to Executive Directors, provided an opportunity to accelerate the evolution of performance conditions. PSP awards to Executive Directors were made in September 2020, following the approval of updated share plans at the 2020 AGM. To reflect the impact of oil price volatility and COVID-19 on the Company share price, and to ensure Executive Directors did not benefit from 'windfall gains' as a result, awards were calculated using the 12-month average share price. This resulted in an effective reduction in award value of c.27%. The Committee retains discretion to make further adjustments at the vesting point, if it is deemed appropriate. Additionally, the Committee applied a discretionary downward adjustment to the value of PSP awards made to senior management (15% reduction) and other employees (10% reduction). These awards were calculated as normal using the three-day average share price.

Executive Director shareholding

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

Executive Director remuneration in 2021

2021 base salaries

For 2021, the Committee has held salaries for Executive Directors at 2020 levels; this is in line with the UK workforce.

2021 PSP awards
The Committee has decided to make awards of PSP to Amjad Bseisu and Jonathan Swinney at 250% of salary. These awards will be made in April 2021 and will be subject to two performance targets, relative TSR and emissions reduction.

In 2020, we again saw the clear benefits of transparency and proactive interaction with major shareholders. We welcome your input and are always prepared to listen and take on board suggestions that help EnQuest to continue to develop and improve. The Committee and I wish to thank all our shareholders for their ongoing support over the years. I hope you will all support and vote for this DRR at the forthcoming AGM.

Howard Paver
Chair of the Remuneration and Social Responsibility Committee
24 March 2021

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 2018 UK 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
The following sections of this report set out our Directors' Remuneration Policy (the 'Policy'), which will be put to shareholders for their approval at the 2021 Annual General Meeting in accordance with section 439A of the Companies Act 2006.

In last years' remuneration report, we indicated that we would undertake a full review of our Executive Director Remuneration Policy in consultation with shareholders.

Remuneration principles
In determining the Policy presented below, and submitted for approval at the 2021 AGM, we have reviewed our overall remuneration principles to ensure that they continue to be aligned with our strategy and stakeholder interests. EnQuest's strategic objective is to be the operator of choice for maturing and underdeveloped hydrocarbon assets, focused on enhancing hydrocarbon recovery and extending the useful lives of these assets in a profitable and responsible manner.

Our principles remain clear and simple: we want to ensure that we operate with the appropriate culture, strengthening the link between reward and performance and emphasising the importance of our purpose and Values.

In summary, the principles underpinning our Policy are that remuneration for Executive Directors should:
- Support alignment of executives with stakeholders;
- Be fair, reflective of best practice, and market competitive;
- Comprise fixed pay set around the median and variable pay capable of delivering remuneration at upper quartile; and
- Reward performance with a balance of short-term and long-term elements, with the emphasis on longer-term reward.

The table below sets out how the principles of the Code relating to the design of remuneration policies and practices have been applied:

Clarity	Simplicity	Risk	Predictability	Proportionality	Alignment to culture
We ensure pay for performance and that our Policy is designed to be logical and transparent. We engage in shareholder consultation when considering material changes to Policy or process. We believe our remuneration arrangements, and the principles underpinning them, are clear and well understood by our stakeholders.	Remuneration for Executive Directors is comprised of distinct elements: • salary; • pension and other benefits aligned with the wider UK workforce; • annual bonus; and • long-term incentive awards to reward sustainable long-term performance.	Remuneration arrangements ensure that the risks from excessive rewards are easily identified and mitigated. Salaries are reviewed annually and consider a variety of factors, including external benchmarking and salary increases across the wider workforce. Variable pay elements are linked directly to Company performance.	Target ranges and potential maximum payments under each element of remuneration are disclosed within the DRR. The Committee operates a high degree of discretion over variable pay elements and can adjust any pay outcomes that the Committee deems are inconsistent with the performance of the Company.	The Committee has ensured that appropriate safeguards are incorporated into the 2021 Policy. Annual bonus is directly aligned to Company objectives, and the Committee retains discretion to adjust outcomes that are considered disproportionate to the experience of other stakeholders	Our business performance metrics and remuneration structure are aligned to our culture and Values, with specific non-financial measures included in performance metrics. The Committee keeps all performance metrics under review and retains the flexibility to introduce further culture and Values measures into our annual bonus plan.

Executive Directors

General approach

The remuneration of the Executive Directors comprises base salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares), a long-term incentive plan (referred to as 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 12 May 2021, subject to approval at the 2021 AGM, with revisions to the Policy approved in May 2018 identified in the notes below this table:

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: 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.
Component: 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 periodically 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 the lesser of 10% of salary or £50,000, plus private medical insurance, life assurance and personal accident insurance, the costs of which are determined by third-party providers.	None.
Component: 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% of salary. • Maximum award – 125% of salary.	• Using a scorecard approach, including key performance objectives such as financial, operational, project delivery, HSEA targets and net debt. These are set annually by the 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%.

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: Performance Share Plan ('PSP')			
Encourages alignment with shareholders on delivery of 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. • Dividend equivalent on unvested awards will accrue in shares only. • Awards vesting from 2022 onwards are 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. • 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 2021 onwards are subject to malus or clawback in the event of: – Material misstatement of the Company's accounts; – Errors in the calculation of performance; – Gross misconduct by an individual for up to three years following the determination of performance; – Material error in the information on which the size of awards or the extent of achievement of performance conditions was based; – Material risk management failure; – Material corporate failure; – Fraud and financial impropriety; – Serious reputational damage or material loss caused by the participant's actions; – Material contravention by the participant of the Company's Values and ethics.	• Normal maximum – 250% of salary. • Exceptional maximum – 350% of salary.	• Vesting of awards granted from 2021 will be based on a blend of measures including, but not limited to, relative TSR and ESG measures. • 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.
Component: Shareholding requirement			
To ensure sustained alignment between the interests of Executive Directors and our shareholders.	• Executive Directors are required to maintain a shareholding equivalent to at least 200% of salary. • Executive Directors will have a maximum period of five years from appointment to attain this shareholding level. • Shareholding must be retained for a period of two years post-employment at the lower of the actual shareholding and the in-post requirement, including both vested and unvested shares.	n/a	None.

Purpose	Operation/key features	What is the maximum potential opportunity?	Applicable performance measures
Component: 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 Chairs, 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.

Changes to policy

Pension contributions

Executive Director pension contributions will be fully aligned with the workforce at the lesser of 10% of salary and £50,000. This is a significant change and demonstrates the Committee's commitment to fairness across the business. Contributions will continue to be offered as a cash equivalent.

Performance Share Plan

The PSP rules were updated and approved by shareholders in 2020. No changes are proposed to award levels although changes proposed to the operation of the plan include clarification that any dividend equivalent on unvested awards will accrue in shares. Additionally, performance conditions have been simplified and more clearly aligned to shareholder outcomes and the Company purpose, with the malus and clawback triggers expanded to clarify the provisions.

Shareholding requirement

The existing shareholding requirement of 200% of salary is retained. Additionally, a maximum period of five years to attain this shareholding level has been introduced for new Executive Directors with the introduction of the requirement that shares are held for a minimum period of two years post-employment at the lower of the actual shareholding level at the time of leaving or the in-post requirement. The changes proposed will further strengthen the alignment of interest between Executive Directors and shareholders.

Performance measures and targets

Annual bonus

The key performance indicators in the Company scorecard that also determine the annual bonus of Executive Directors include, but are not limited to, the following categories:

- Environmental, Social and Governance ('ESG');
- Financial (including EBITDA, opex, capex and net debt);
- Operational performance/production;
- Project delivery;
- Reserves additions; 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 PSP. In addition to measuring performance against objectives, the Committee will consider the overall quality of the Company's financial performance and other factors, particularly HSEA, when determining annual performance pay awards.

Amjad Bseisu's bonus objectives are normally based solely on the Company Performance Contract ('CPC') of EnQuest. Jonathan Swinney's bonus objectives may also include up to 25% 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. Awards granted from 2019 onwards are 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. The performance condition attached to the awards granted in 2020 is relative TSR measured against a comparator group of oil and gas companies.

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. On the appointment of a new Chair or Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual. 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 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 be provided in line with those offered to other executives and employees taking into account corporate governance requirements and 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 2020 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.

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 would be 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[1]	Date of appointment	Notice period	Initial term of appointment
Martin Houston	1 October 2019	3 months	3 years
Carl Hughes	1 January 2017	3 months	3 years
Philip Holland	1 August 2015	3 months	3 years
John Winterman	7 September 2017	3 months	3 years
Howard Paver	1 May 2019	3 months	3 years
Farina Khan	1 November 2020	3 months	3 years
Liv Monica Stubholt	15 February 2021	3 months	3 years

Note:
1 Laurie Fitch decided to step down upon expiry of her service agreement on 8 January 2021

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 be tested as normal 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.

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.

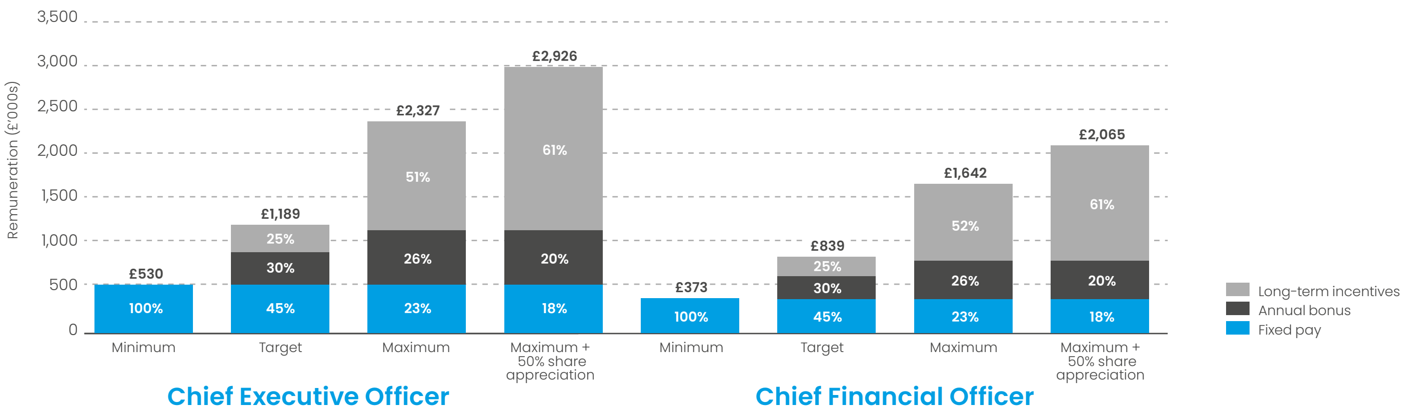
If tax liabilities arise from an error or omission by the Company that is outside of the control of the Executive Directors, the Committee will have the ability to reimburse any such tax liabilities.

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 on the following page set out an illustration of the remuneration arrangements for 2021 in line with the Policy. These charts provide an illustration of the proportion of total remuneration made up of each component of the Policy and the value of each component.

In accordance with the remuneration reporting requirements, four 2021 scenarios are 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% of maximum vesting under the PSP at threshold performance
Maximum performance	• Fixed remuneration • 125% of annual base salary as annual bonus • Full vesting under the PSP
Maximum performance plus 50% share appreciation	• Fixed remuneration • Maximum payout under the annual bonus • Full vesting under the PSP plus assumed 50% share price appreciation at vesting



Notes:
For Amjad Bseisu (CEO), fixed pay comprises salary from 1 January 2021, a pension allowance of £50,000 plus medical insurance benefit of £1,250
For Jonathan Swinney (CFO), fixed pay comprises salary from 1 January 2021, a pension allowance of £33,829 plus medical insurance benefit of £1,250
Rounding may apply

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; and
- 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 executives 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 EnQuest's shareholders with regard to the levels of remuneration for Directors. The 2019 DRR was voted on at the AGM held in May 2020, where 94.35% of the votes cast were in favour.

Shareholders were consulted in relation to Policy changes and their feedback was incorporated into the final Policy presented in this report at pages 84 to 91. In addition to this, shareholder views were sought and received regarding the appropriate methodology to apply when adjusting the level of Executive Director PSP award in 2020, and the performance condition attached to this award.

Shareholders further expressed a preference for a simplified approach to performance measures applied to Executive Director bonus calculations, and the Committee is confident that the measures set out for 2021 bonus on page 100 will be well received. Both bonus and PSP performance conditions for 2021 also reflect the ongoing focus from shareholders on ESG matters, with quantitative targets included for both short-term and long-term incentives.

Annual Report on Remuneration for 2020

Terms of reference

The Committee's terms of reference are available either on the Company website, www.enquest.com, or by written request from the Company Secretariat team at the Group's London headquarters. The remit of the Committee embraces the remuneration strategy and policy for the Executive Directors, the Executive Committee, senior management and, in certain matters, for the whole Company.

Meetings in 2020

The Committee has four scheduled meetings per year. During 2020, it met on four occasions as scheduled to review and discuss base salary adjustments for 2021, the setting of Company performance conditions and related annual bonus for 2020, PSP performance conditions, UK Corporate Governance Code provisions and the approval of share awards.

Committee members, attendees and advisers

Member	Date appointed Committee member	Attendance at scheduled meetings during the year
Howard Paver[1]	1 May 2019	4
Laurie Fitch[1,2]	8 January 2018	4
Martin Houston	15 October 2019	4

Notes:
1 Howard Paver assumed the role of Chair of the Remuneration Committee on 21 May 2020, replacing Laurie Fitch who stepped down as Chair of the Committee on the same day
2 Laurie Fitch decided to step down from the Board upon expiry of her service agreement on 8 January 2021. Laurie was replaced on the Committee on 2 February 2021 by Farina Khan, who was appointed to the Board on 1 November 2020

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, include, but are not limited to:
- The Chief Executive (Amjad Bseisu);
- The Chief Financial Officer (Jonathan Swinney);
- The Company Secretary (Stefan Ricketts);
- A representative from the Group's Human Resources department; and
- A representative from Mercer Kepler, appointed as remuneration adviser by the Committee from 1 August 2017.

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 2020, together with comparative figures for 2019.

Single total figure of remuneration – Executive Directors

		'Single figure' of remuneration – £'000s[1]							
Director	Year	Salaries and fees[2]	All taxable benefits	Pension[3]	Total fixed pay	Annual bonus[4]	LTIP[5]	Total variable	Total fixed and variable
Amjad Bseisu	**2020**	**455**	**1**	**50**	**507**	**359**	**253**	**612**	**1,119**
	2019	470	1	50	521	478	276	754	1,275
Jonathan Swinney	**2020**	**321**	**1**	**43**	**365**	**254**	**165**	**419**	**784**
	2019	329	1	50	381	357	179	536	917
Total	**2020**	**777**	**3**	**93**	**872**	**613**	**418**	**1,031**	**1,903**
	2019	799	3	100	902	835	455	1,290	2,192

Notes:
1 Rounding may apply
2 Salary and fees reflect voluntary 20% salary reduction applied in April, May and June 2020
3 Cash in lieu of pension
4 The annual bonus for 2020 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 Executive Director bonus for Amjad Bseisu and Jonathan Swinney that is above 100% of their respective salary is paid in EnQuest PLC shares, deferred for two years, and subject to continued employment
5 **PSP awarded on 24 April 2018 which will vest on 24 April 2021:** the LTIP value shown in the 2020 single figure is calculated by taking the number of performance shares that will vest (63.9%) multiplied by the average value of the EnQuest share price between 1 October 2020 and 31 December 2020, as the share price on 24 April 2021 was not known at the time of this report
PSP awarded on 12 September 2017 which vested on 12 September 2020: the LTIP value shown in the 2019 single figure is calculated by taking the number of performance shares that vested (49.6%) multiplied by the actual share price of 11.50 pence on the next business day following the vesting date of 12 September 2020, as the vesting date was a weekend in the UK. The 2019 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

Single total figure of remuneration – Non-Executive Directors

The remuneration of the Non-Executive Directors for the year ended 31 December 2020 was as follows, together with comparative figures for 2019:

	'Single figure' of remuneration – £'000s					
Director	**Salary and fees 2020[1]**	Salary and fees 2019	All taxable benefits 2020	All taxable benefits 2019	**Total for 2020**	Total for 2019
Martin Houston[2]	**190**	50	–	–	**190**	50
Howard Paver[3]	**70**	40	–	–	**70**	40
Laurie Fitch[4]	**61**	70	–	–	**61**	70
Carl Hughes	**67**	70	–	–	**67**	70
Philip Holland	**67**	70	–	–	**67**	70
John Winterman[5]	**67**	62	–	–	**67**	62
Farina Khan[6]	**10**	–	–	–	**10**	–
Jock Lennox[7]	**–**	156	–	–	**–**	156
Helmut Langanger[8]	**18**	70	–	–	**18**	70
Total	**548**	588	–	–	**548**	588

Notes:
1 Salary and fees paid in April, May and June 2020 were subject to a voluntary 20% reduction
2 Martin Houston was appointed as Chairman of the Board and Chairman of the Governance and Nomination Committee on 1 October 2019. His fees were pro-rated
3 Howard Paver was appointed as Non-Executive Director on 1 May 2019, Senior Independent Director on 31 March 2020 and Chair of the Remuneration and Social Responsibility Committee on 21 May 2020. His fees were pro-rated
4 Laurie Fitch assumed the role of Chair of the Remuneration and Social Responsibility Committee on 29 January 2019, stepping down on 21 May 2020. Her fees for 2020 were pro-rated
5 John Winterman was appointed as Chairman of the Technical and Reserves Committee on 15 October 2019. His fees were pro-rated
6 Farina Khan was appointed to the Board and became a member of the Audit Committee and Safety, Climate and Risk Committee on 1 November 2020. Her fees for 2020 were pro-rated
7 Jock Lennox retired as Chairman of the Board on 30 September 2019. His fees were pro-rated
8 Helmut Langanger stepped down as Chairman of the Remuneration and Social Responsibility Committee on 29 January 2019 and retired from the Board on 31 March 2020. His fees were pro-rated

Annual bonus 2020 – paid in 2021

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. The maximum bonus entitlement for the year ended 31 December 2020 as a percentage of base salary was 125% for Amjad Bseisu and Jonathan Swinney.

For Amjad Bseisu, the annual bonus for 2020 was wholly based on the CPC results. For Jonathan Swinney, 50% of the bonus potential was assessed against the CPC and 50% on achievement against personal targets based on key objectives for the year in his area of responsibility.

Company Performance Contract

The details of the CPC for both Amjad Bseisu and Jonathan Swinney and the personal objectives for Jonathan Swinney are set out in the following tables, showing the performance conditions and respective weightings against which the bonus outcome was assessed. The final CPC outcome was revised down by the Committee to reflect the shareholder and employee experience in 2020 and the PM8/Seligi incident (described in the Operating review and Our people and communities sections on pages 18 to 23 and 38 to 45, respectively), balanced against the positive response to the challenges presented by COVID-19 (described in the section 'Protecting our people' on page 08 to 09) and the successful business transformation (described in section 'Transforming our business' on pages 16 to 17.

Performance measure	Weighting	Performance targets and payout		Amjad Bseisu	Jonathan Swinney
Production (Mboepd)	40.00%	Threshold: 55.2 Maximum: 61.1	Maximum bonus % available	50.00%	25.00%
		Actual: 59.1	**Actual % payout**	**36.24%**	**18.12%**
Opex Cash opex ($ million)	30.00%	Threshold: 411 Maximum: 380	Maximum bonus % available	37.50%	18.75%
		Actual: 348	**Actual % payout**	**37.50%**	**18.75%**
Capex Cash capex ($ million)	10.00%	Threshold: 223 Maximum: 196	Maximum bonus % available	12.50%	6.25%
		Actual: 131	**Actual % payout**	**12.50%**	**6.25%**
ESG Board approval of a measurable programme of work and plans anticipated in the 2019 Annual Report for the Company's contribution to UK's net-zero target by 2050	10.00%	Threshold: Achieved by December Board Maximum: Achieved by August Board	Maximum bonus % available	12.50%	6.25%
		Actual: August to October	**Actual % payout**	**10.00%**	**5.00%**
Culture and Values Employee Engagement Survey Score – Diversity and inclusion	5.00%	Threshold: 6.5 Maximum: 7.5	Maximum bonus % available	6.25%	3.13%
		Actual: 7.0	**Actual % payout**	**3.75%**	**1.88%**
Culture and Values Improvement in Employee Engagement Overall Survey Score	5.00%	Threshold: Flat Maximum: 1.0	Maximum bonus % available	6.25%	3.13%
		Actual: 0.5	**Actual % payout**	**3.75%**	**1.88%**
Total bonus outturn (% of salary)				**103.74%**	**51.87%**
Discretionary adjustment (% of salary)				**(28.74)%**	**(14.37)%**
Adjusted final bonus (% of salary)				**75.00%**	**37.50%**

Note: Rounding may apply

Any payout against the CPC may be subject to an additional underpin based on the Committee's assessment of the Company's HSEA performance. The discretionary adjustment shown takes into account HSEA performance reviewed by the Committee in February 2021.

Personal objectives were set individually for Jonathan Swinney based on his key areas of focus for the year within his area of responsibility. Please note that for reasons of commercial sensitivity, full details of the target ranges are not being disclosed. However, the following table highlights the key objectives and achievements as assessed by the Committee for Jonathan Swinney's individual performance targets for 2020.

Jonathan Swinney
Individual Performance Contract

Objective	Weighting	Maximum bonus available	Measures	Key achievements	Performance outcome	Percentage of bonus achieved
Balance sheet responsibility (including liquidity)	25.00%	15.63%	Deliver appropriate funding to maintain liquidity	Assessed refinancing options and secured additional surety bonds	Maximum	15.63%
Financial control and discipline	20.00%	12.50%	Drive control environment and assess effectiveness. Support appropriate cost recovery across the portfolio	Achieved high levels of controls compliance with appropriate financial controls and effective cost recovery and control	Between target and maximum	10.00%
Strategy and business delivery	35.00%	21.88%	Ensure alignment of asset strategies and business plan processes and delivering technology-led finance projects	Aligned strategy and planning processes. Technology programmes designed and delivered on schedule and in accordance with agreed roadmap	Between target and maximum on strategy alignment and projects	20.25%
ESG and organisation development and people	20.00%	12.50%	Board approval of measurable ESG plans	ESG plan approved in good time	Between target and maximum on ESG targets	10.00%
			Employee survey score and diversity commitment	Survey score at target		
			Improvement in Finance survey scores	Improvement for Finance at stretch	Maximum	
Total:	**100.00%**	**62.50%**				**55.88%**
Discretionary adjustment (% of salary)						**(18.38)%**
Adjusted final bonus (% of salary)						**37.50%**

The annual bonus summary for the Executive Directors for 2020 is shown in the table on the following page. The Committee carefully assessed the achievement of the performance conditions against the CPC for Amjad Bseisu and against the CPC and personal objectives for Jonathan Swinney, then applied a discretionary downward adjustment to both to reflect shareholder and employee experience and HSEA performance balanced against COVID-19 response and business transformation delivery to determine the overall level of annual bonus for each Executive Director.

		Amjad Bseisu		Jonathan Swinney	
Performance measure[1]	Weighting	Max	Actual outturn % of salary	Max	Actual outturn % of salary
Production (Mboepd)	40.00%	50.00%	36.24%	25.00%	18.12%
Cash opex ($ million)	30.00%	37.50%	37.50%	18.75%	18.75%
Cash capex ($ million)	10.00%	12.50%	12.50%	6.25%	6.25%
ESG	10.00%	12.50%	10.00%	6.25%	5.00%
Culture and Values (diversity)	5.00%	6.25%	3.75%	3.13%	1.88%
Culture and Values (employee engagement)	5.00%	6.25%	3.75%	3.13%	1.88%
Sub-total	**100.00%**	**125.00%**	**103.74%**	**62.50%**	**51.87%**
Personal objectives	n/a	n/a	n/a	62.50%	55.88%
Total outturn (%)	**100.00%**	**125.00%**	**103.74%**	**125.00%**	**107.75%**
Discretionary adjustment (%)			**(28.74)%**		**(32.75)%**
Total payout (%)			**75.00%**		**75.00%**
Total payout (% of maximum)			**60.00%**		**60.00%**
Total 2020 bonus award (£)			**£359,352**		**£253,718**

Notes:
Rounding may apply
1 In relation to the financial measures, threshold, target and stretch performance pays out at 0%, 60% and 100% of maximum respectively and on a straight-line basis in between threshold and target performance and between target and stretch performance

2018 PSP awards that vest in 2021

The LTIP award made to Executive Directors on 24 April 2018 was based on the performance to the year ended 31 December 2020 and will vest on 24 April 2021.

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	Reduction in net debt	Reserves growth	Total award
24 Apr 2018	24 Apr 2021	1 Jan 2018 – 31 Dec 2020	30.00%	30.00%	30.00%	10.00%	100.00%
Base levels				37,405 Boepd	$1,991.4 million	210.3 MMboe	
Threshold			Median	49,786 Boepd	$1,494 million	221.0 MMboe	
Maximum			Upper quartile	64,636 Boepd	$1,294 million	231.0 MMboe	
Actual performance achieved			**7th position**	**60,029 Boepd[1]**	**$1,280 million**	**216.5 MMboe[1]**	
Percentage meeting performance conditions and total vest			**10.92%**	**23.02%**	**30.00%**	**0.00%**	**63.94%**

Note:
1 Adjusted to include the impact of the non-equity funded element in the acquisition of an additional 75% interest in Magnus, consistent with the treatment of the 2017 PSP, and the impact of the strategic decision taken early in 2020 to close the Heather and Thistle assets earlier than planned. The closures of the two assets were value-enhancing and in shareholder interests and thus the Committee did not want to penalise management for executing the closures in 2020. The production outturn includes the expected 2020 production from Heather and Thistle whilst the reserves outturn includes the expected 2020 reserves from Heather and Thistle. Overall, the PSP vesting increased from 54.2% to 63.9% of maximum

The table below shows the number of nil cost options awarded on 24 April 2018 that will vest on 24 April 2021 and their value as at 31 December 2020. This figure is calculated by taking the average closing share price on each trading day of the period 1 October 2020 to 31 December 2020 and is used as the basis for reporting the 2020 'single figure' of remuneration. The actual value of these shares recorded in the remuneration table will be updated in 2021 to represent the actual value received on the day of vesting.

Name	Total shares	Portion vesting	No. of shares vesting	Average share price £	Value at 31 Dec 2020 £
Amjad Bseisu	3,587,060	63.94%	2,293,566	0.1103	252,980
Jonathan Swinney	2,335,759	63.94%	1,493,484	0.1103	164,731

The 2018 PSP award granted was based on the average middle market quotation of the three dealing days immediately preceding the date of grant of 24 April 2018 of 36.82p. Compared to the average value of the EnQuest share price between 1 October 2020 and 31 December 2020 of 11.03p, this represents a 70% decrease in the share price over the period.

Should the share price be the same at vesting as at grant, with the performance outturn of 63.94%, the value would be 234% higher than currently estimated using the average value of the EnQuest share price between 1 October 2020 and 31 December 2020. The Committee is satisfied that the implied values vesting to Executive Directors and the overall single figures of remuneration for the year are appropriate taking into account the performance of the Company. No discretion has therefore been exercised in relation to this fall in share price.

September 2020 PSP award grant

After due consideration of business performance in 2019 and the impact of the external environment on the business and the transformation activities undertaken in 2020, the Committee awarded the Executive Directors the following performance shares on 10 September 2020:

	Face value (% of 2019 salary)	Face value at date of grant[1] £	No. of shares	Performance period
Amjad Bseisu	250%	1,174,353	7,057,406	1 Jan 2020 – 31 Dec 2022
Jonathan Swinney	250%	823,650	4,949,819	1 Jan 2020 – 31 Dec 2022

Note:
1 Based on the middle market quote for the 12 months preceding the date of grant of 16.64 pence

Summary of performance measures and targets – April 2019 PSP grant

The 2020 PSP share awards granted on 10 September 2020 will be measured solely against a relative total shareholder return ('TSR') performance condition over a three-year financial performance period.

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

The performance period for the award will be 1 January 2020 to 31 December 2022, with the awards vesting on 9 September 2023.

2020 PSP – schedule for vesting in 2023

	Relative TSR weighting 100%	
	Performance	Vesting
Below threshold	Below median	0%
Threshold[1]	Median	25%
Maximum[1]	Upper quartile	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 2020:

Year of grant		Production growth – base level	Reserves growth – base level	Net debt – base level
2018		37,405 Boepd	210.3 MMboe	$1,991.4 million
2019		55,447 Boepd	245.2 MMboe	$1,774.5 million
2020	100% Relative TSR	n/a	n/a	n/a

The comparator group of companies for the TSR performance condition relating to the 2020 PSP award are as follows:

FTSE 350	FTSE All-Share	FTSE AIM – Top 100	NASDAQ OMX Stockholm	Other
Cairn Energy Tullow Oil	Premier Oil Pharos Energy	Hurricane Energy Rockhopper Exploration Bowleven Serica Energy	Africa Oil Lundin Petroleum Aker BP ASA	Genel Energy

The number of PSP awards outstanding as at 31 December 2020 are as follows:

	Total shares awarded	Performance period	Performance conditions (and weighting)	Vesting date
Grant date – April 2018			TSR (30%)	24 Apr 2021
Amjad Bseisu	3,587,060	1 Jan 2018 – 31 Dec 2020	Production growth (30%)	
Jonathan Swinney	2,335,759		Reserves growth (10%)	
			Net debt reduction (30%)	
Grant date – April 2019			TSR (30%)	24 Apr 2022
Amjad Bseisu	5,215,886	1 Jan 2019 – 31 Dec 2021	Production growth (30%)	
Jonathan Swinney	3,658,260		Reserves growth (10%)	
			Net debt reduction (30%)	
Grant date – September 2020			TSR (100%)	9 Sep 2023
Amjad Bseisu	7,057,406	1 Jan 2020 – 31 Dec 2022		
Jonathan Swinney	4,949,819			

Pension allowance
Executive Directors do not participate in the EnQuest pension plan and instead receive cash in lieu. Amjad Bseisu received £50,000 and Jonathan Swinney received £42,500 in 2020. These were equivalent to 10.4% of Amjad Bseisu's 2020 salary and 12.6% of Jonathan Swinney's 2020 salary.

Statement of Directors' shareholding and share interests
The interests of the Directors in the share capital of the Company as at 31 December 2020 are shown below:

In 2020, the following awards were granted, vested and lapsed for the Executive Directors

PSP	31 December 2019	Granted	Lapsed	31 December 2020	Vesting period	Expiry date
Amjad Bseisu	4,837,499		2,440,519	2,396,980	12 Sep 2017 – 12 Sep 2020	12 Sep 2027
	3,587,060			3,587,060	24 Apr 2018 – 24 Apr 2021	24 Apr 2028
	5,215,886			5,215,886	24 Apr 2019 – 24 Apr 2022	24 Apr 2029
		7,057,406		7,057,406	9 Sep 2019 – 9 Sep 2023	9 Sep 2030

PSP	31 December 2019	Granted	Lapsed	31 December 2020	Vesting period	Expiry date
Jonathan Swinney	3,149,999		1,589,175	1,560,824	12 Sep 2017 – 12 Sep 2020	12 Sep 2027
	2,335,759			2,335,759	24 Apr 2018 – 24 Apr 2021	24 Apr 2028
	3,658,260			3,658,260	24 Apr 2019 – 24 Apr 2022	24 Apr 2029
		4,949,819		4,949,819	9 Sep 2019 – 9 Sep 2023	9 Sep 2030

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). 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.

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).

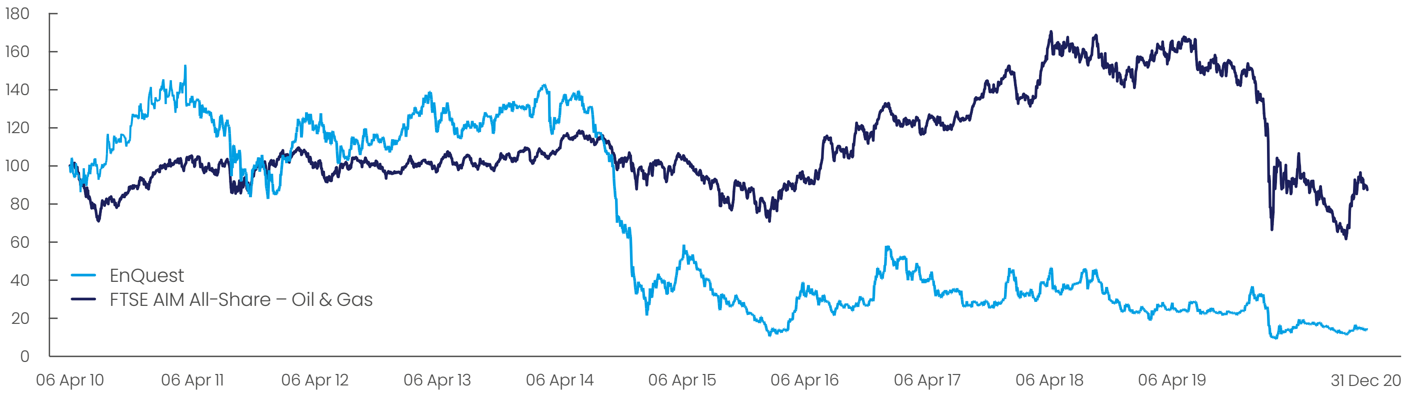
	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Unvested and subject to performance conditions under the PSP	Vested but not exercised under the PSP	Vested but not exercised under the RSP	Sharesave	Executive deferrals	Total at 31 December 2020	Value of shareholding as a % of salary[1]
Amjad Bseisu	179,705,454[2]	4,137%	15,860,352	2,396,980	–	–	72,142	198,034,928	4,559%
Jonathan Swinney	762,894	25%	10,943,838	3,728,783	–	–	2,195,174	17,630,689	575%
Philip Holland	279,884	n/a	n/a	n/a	n/a	n/a	n/a	279,884	n/a
Carl Hughes	103,571	n/a	n/a	n/a	n/a	n/a	n/a	103,571	n/a
John Winterman	28,571	n/a	n/a	n/a	n/a	n/a	n/a	28,571	n/a
Laurie Fitch[3]	70,000	n/a	n/a	n/a	n/a	n/a	n/a	70,000	n/a
Martin Houston	500,000	n/a	n/a	n/a	n/a	n/a	n/a	500,000	n/a
Howard Paver	433,276	n/a	n/a	n/a	n/a	n/a	n/a	433,276	n/a
Farina Khan	–	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 2020 to 31 December 2020
2 As at 31 December 2020, 161,380,583 shares were held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 18,157,324 shares were also held by The Amjad and Suha Bseisu Foundation and the remaining 167,547 shares were held by Amjad Bseisu directly
3 Laurie Fitch decided to step down upon expiry of her service agreement on 8 January 2021

Information not subject to audit

Total Shareholder Return and Chief Executive 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 index 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 2020 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:

	2014	2015	2016	2017	2018	2019	**2020**
'Single figure' of total remuneration (£'000s)	817	884	941	998	1,306	1,275	**1,119**
Annual bonus (as a % of maximum)	24	27	33	57	79	81	**60**
Long-term incentive vesting rate (as a % of maximum PSP)	79	77	56	11	56	50	**64**

CEO pay ratio 2020

The CEO pay ratio has been calculated using the 'Option A' methodology which compares the single total figure of remuneration ('STFR') of the CEO to UK employees for the 12 months ending 31 December 2020 on a full-time equivalent basis. This methodology has been chosen as it offers the most accurate and preferred approach for companies to apply based on institutional investor guidelines.

Financial year	Methodology		CEO pay ratio P25 (lower quartile)	CEO pay ratio P50 (median)	CEO pay ratio P75 (upper quartile)
2020	A	STFR	14:1	12:1	10:1
2019	A	STFR	23:1	14:1	11:1

Total remuneration is as defined in the single total figure of remuneration for Executive Directors. EnQuest has determined the P25, P50 and P75 individuals with reference to a ranking of total remuneration and by identifying those employees with the most typical pay structure of a UK-based employee. All employees have been included as at 31 December 2020, with remuneration of part-time employees and those employees on statutory leave included on a full-time equivalent basis.

Data points reflect the 25th, 50th and 75th percentile of all UK employees' total remuneration as follows:

				UK STFR		
Financial year	Methodology		CEO	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2020	A	STFR	£1,118,892	£78,729	£92,508	£110,817
2019			£1,448,480	£62,717	£104,769	£129,558
2020	A	Base salary	£455,179	£52,346	£75,833	£70,874
2019			£469,741	£51,952	£76,503	£87,941

In setting both the CEO remuneration and the remuneration structures for the wider UK workforce, EnQuest has adopted a remuneration structure which includes the same elements for employees at all levels (base pay, benefits, pension, cash bonus and share awards). Whilst all employees receive a base salary that is market competitive for their role and commensurate with our business size, differences exist in the quantum of variable pay that is achievable by the senior executive team and by individuals at more senior management levels in the Company. At these levels, where there is a greater opportunity to influence Company performance, there is a greater emphasis on aligning executives with shareholders. Based on this distinction, the Company believes that the median pay ratio is consistent with the wider pay, reward and progression policies impacting UK employees. The decrease in the pay ratio for 2020 is a result of the incentive outcomes for the CEO being less than 2019 due to Company and share price performance, as well as the voluntary salary reduction taken in the second quarter of 2020.

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:

	2019 $ million	**2020 $ million**
EBITDA	1,007	**551**
Net debt	1,413	**1,280**
Distribution to shareholders	0	**0**
Total employee pay	158	**118**

Note: EBITDA has been chosen as an appropriate measure of return to shareholders and net debt as a measure of EnQuest's commitment to its lenders

Change in Directors' pay relative to the workforce between 2019 and 2020

	Base salary/ fees %	Bonus %	Benefits %
Amjad Bseisu	(3.2)	(24.9)	–
Jonathan Swinney	(2.4)	(28.9)	(14.6)
Martin Houston[1]	(5.0)	–	n/a
Howard Paver[2]	27.0	–	n/a
Laurie Fitch[3]	(13.0)	–	n/a
Philip Holland	(5.0)	–	n/a
Carl Hughes	(5.0)	–	n/a
Farina Khan[4]	n/a	–	n/a
John Winterman	(8.0)	–	n/a
UK employees (average)	2.6	(20.8)	2.6

Notes:
UK employees have been chosen as the most appropriate comparator group as the majority of the EnQuest workforce is UK based and their pay structure is comparable to the Directors' pay based on annualised actual amounts paid in 2019 and 2020
Benefits includes employer pension contribution and/or allowance
1. Martin Houston was appointed as Chairman of the Board and Chairman of the Governance and Nomination Committee on 1 October 2019. His fees have been annualised
2. Howard Paver was appointed as Non-Executive Director on 1 May 2019, Senior Independent Director on 31 March 2020 and Chair of the Remuneration and Social Responsibility Committee on 21 May 2020. His fees for both 2019 and 2020 have been annualised
3. Laurie Fitch assumed the role of Chair of the Remuneration and Social Responsibility Committee on 29 January 2019, stepping down on 21 May 2020. Her fees for 2020 were pro-rated
4. Farina Khan was appointed to the Board and became a member of the Audit Committee and Safety, Climate and Risk Committee on 1 November 2020
5. John Winterman was appointed as Chairman of the Technical and Reserves Committee on 15 October 2019. His fees were pro-rated

Statement of implementation of the Remuneration Policy for the year ending 31 December 2021

Base salary and 2021 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 no change to salaries for 2021:

Name	Salary for 2020[1] £	**Salary for 2021 £**	Increase %
Amjad Bseisu	479,136	**479,136**	0.0
Jonathan Swinney	338,290	**338,290**	0.0

Note:
1 Represents gross salary prior to voluntary 20% reduction to salaries paid in April, May and June 2020

The Company employees are, in general, held at 2020 salary levels.

Pension and other benefits

The Company will continue to pay a cash benefit in lieu of pension of up to £50,000 in respect of the CEO, with the pension benefit for the CFO now aligned with the wider workforce at 10% of salary. The Company will also continue to pay 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 2021, the target and maximum annual bonus opportunities for Executive Directors will continue to be 75% of salary at target and 125% of salary at maximum.

The annual bonus scheme for 2021 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;
- Executive Director bonus will be determined solely by the performance of the Company;
- 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 2021 metrics and weightings, which will determine the level of short-term incentive awards for the Directors, are set out below.

Company 2021 performance measures scorecard

Metric	Weighting
Production	20%
Expenditure	20%
Asset Integrity	10%
ESG and Culture and Values	10%
Liquidity Management	20%
Reserves Replacement	20%

Notes:
1 Precise targets are commercially sensitive and are not being disclosed in advance at this time
2 Performance in HSEA 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

2021 PSP awards

After due consideration of business performance in 2020, the transformation 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 2021.

Summary of 2021 PSP performance measures and targets

The PSP share awards granted in 2021 will have two performance metrics, both measured over a three-year financial period:

- 80% of the award relates to relative TSR against a comparator group of 20 oil and gas companies;
- 20% relates to emissions reduction over three years.

2021 PSP - scheduled for 2024 vesting

	Relative TSR		Emissions reduction	
	Performance	Vesting	Performance	Vesting
Below threshold	Below median	0%	<10%	0%
Threshold	Median	25%	10%	25%
Maximum	Upper quartile (or better)	100%	12% (or better)	100%

2021 PSP award TSR comparator group

Africa Oil	Genel Energy	Okea
Aker BP ASA	Hibiscus	Pharos Energy
BW Energy	Hurricane Energy	Premier Oil
Cairn Energy	Jadestone	Santos
Diversified Oil and Gas	Kosmos	Serica Energy
DNO	Lundin Petroleum	Tullow Oil
Energean	Maurel & Prom	

Non-Executive Directors

The fees for the Non-Executive Directors with effect from 1 January 2021 are:

	Fee
Chairman	£200,000
Director	£60,000
Senior Independent Director	£10,000
Committee Chair	£10,000

External benchmarking of Non-Executive Directors is carried out on an annual basis. Base Director fees were increased from 1 January 2019 and agreed to be held for a period of two years.

Advisers to the Committee

Mercer Kepler provided advice to the Remuneration Committee.

The Committee satisfied itself that the advice given was objective and independent by reviewing it against other companies in EnQuest's comparator group. Mercer Kepler are signatories to the Remuneration Consultants Group Code of Conduct which sets out guidelines for managing conflicts of interest. Mercer Kepler do not provide any other services to the Company.

The fees in respect of 2020 paid to Mercer Kepler totalled £88,590 (excluding VAT). These 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 24 May 2018 in respect of the Remuneration Policy and 21 May 2020 in respect of the 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 cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Policy (2018)	478,601,098	89.67%	55,126,159	10.33%	533,727,257	22,477,048
Remuneration Report (2020)	596,357,342	94.35%	35,674,289	5.64%	632,031,631	106,366

The Directors' Remuneration Report was approved by the Board and signed on its behalf by Howard Paver on 24 March 2021.

Howard Paver
Chair of the Remuneration and Social Responsibility Committee

Governance and nomination committee report

"ESG, diversity and succession planning remain important areas of focus for the Committee.

Martin Houston
Chairman of the Governance and Nomination Committee

Dear fellow shareholder

Welcome to the first report of the newly named Governance and Nomination Committee. Throughout 2020, the Committee has given a great deal of thought as to how ESG matters are addressed within the Company at Board level. After considerable deliberation, we made recommendations, adopted by the Board that, in light of the central place occupied by ESG topics in the strategic dialogue of the Company, and the importance of such matters to our stakeholders, we should enhance the remits of the existing Board Committees to explicitly encompass oversight in respect of a range of ESG matters that are most relevant to our Company and the delivery of our strategy. The composition of the Committees was also reviewed to ensure they remained efficient and effective, with some alterations to certain Committees' memberships. Details of the changes to the remits of the Committees and of their membership can be found in the individual Committee reports.

As mentioned in my Chairman's letter on pages 68 to 69, I have the great pleasure of welcoming two new Directors to the EnQuest Board. Both Farina Khan and Liv Monica Stubholt are very well qualified and provide extensive experience for the benefit of the Board and the Company. More information on their particular skillsets can be found in the pages below.

As reported in last year's Annual Report, one of my first tasks on appointment as Chairman of the Board and also Chairman of this Committee, was to appoint a new Senior Independent Director ('SID') for the Company. As previously reported, Howard Paver was appointed to the position on 31 March 2020. He subsequently, at the recommendation of this Committee, assumed the role as Chairman of the Remuneration Committee in May 2020 (a position historically held by the SID of EnQuest).

Finally, the Committee has continued to review the composition, development of, and succession planning for the Executive Committee and was pleased to welcome Janice Mair to the Executive Team. Janice, previously the Company's Head of HR, is now Director of People, Culture and Diversity and will lead the Company's efforts in its diversity and inclusion activities.

Martin Houston
Chairman of the Governance and Nomination Committee
24 March 2021

Governance and Nomination Committee membership

The Governance and Nomination Committee comprises the Chairman of the Company, the SID and the Chief Executive. Both the Chairman and SID are deemed independent. Appointment dates and attendance at scheduled meetings are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Martin Houston	1 October 2019	10
Amjad Bseisu	22 February 2010	10
Helmut Langanger[1]	16 March 2010	2/2
Howard Paver	15 October 2019	10

Note:
1 Helmut Langanger retired from the Board on 31 March 2020

Main responsibilities

The core work of the Governance and Nomination Committee is to ensure that the Board and its Committees have the appropriate balance of skills, expertise and experience in order to support the strategy of the Company. Currently, the Board consists of seven Non-Executive Directors and two Executive Directors, who collectively bring a diverse mix of skills and experience to the Company collaborating with each other to provide strong leadership.

The main responsibilities of the Committee are to:

- Review the size, structure and composition (including the skills, experience, independence, knowledge and diversity) of the Board and its Committees;
- Ensure the orderly succession of Executive Directors, Non-Executive Directors and executive and senior management;
- Identify, evaluate and recommend candidates for appointment or reappointment as Directors or Company Secretary, taking into account diversity, including gender, social and ethnic backgrounds, cognitive and personal strengths and the balance of knowledge, skills and experience required to serve the Board;
- Review the outside directorships/commitments of Non-Executive Directors; and
- Exercise oversight of the compliance of the Company with the Corporate Governance Code (the 'Code').

The 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 the appointment of new Directors to the Board. For the appointments of Farina Khan and Liv Monica Stubholt, the Company used an external search firm, Spencer Stuart, which has no connection with the Company. The Committee actively considers Board diversity in all its forms as part of its thorough review of each candidate, including the balance of skills, knowledge and level of independence they would bring to the Board, and screens 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. Given the COVID-19 restrictions placed on meeting prospective candidates in person, all interviews were conducted by video conference.

Committee activities during the year

The Governance and Nomination Committee met ten times in 2020. Its key activities included:

Structured Board succession planning

Both Helmut Langanger and Laurie Fitch came to the end of their respective terms as Directors over the course of the year and it has therefore been important to consider the overall composition of the Board, whether there were additional skills required and that it remained effective and would continue to be so. As previously highlighted, it was agreed that two new Directors be appointed:

- Farina Khan has over 20 years' experience in the oil and gas industry and was previously CFO of the largest listed entity of PETRONAS. She brings to EnQuest a wealth of industry and financial experience as well as deep insights into Malaysia, which is a key geography for the Company; and
- Liv Monica Stubholt is a highly respected professional in the Norwegian government, energy industry and legal community. She also works with academic communities within her fields. Her extensive experience at the intersection of the energy industry, public policy and governance is highly valued.

Development and employee succession planning

The Board and Governance and Nomination Committee remain satisfied that the individuals currently fulfilling key executive and 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. Over the course of the year, the Committee has considered executive and senior management development and succession planning is regularly discussed. In addition, leadership succession planning reviews have taken place across all EnQuest's locations in order to identify capability strengths and development gaps. In 2021, more structured development activities have been introduced for the Company's top talent and leadership, including the use of psychometric and personality profiling tools. The Board was pleased to welcome Janice Mair, a member of the Aberdeen Leadership Team, to the Executive Committee, where her remit encompasses people, culture and diversity. The Committee continues to develop the process for encouraging and supporting high-potential employees.

ESG development and the strengthening of the Board's Committees

On the recommendation of the Governance and Nomination Committee, the Board strengthened the remit of some of the Company's Board Committees to explicitly include ESG matters. While the Board has always considered such matters, it was considered sensible to include such oversight within the Committee framework. As such, the Safety and Risk Committee is now the Safety, Climate and Risk Committee; the Nomination Committee is now the Governance and Nomination Committee; and the Remuneration Committee is now the Remuneration and Social Responsibility Committee. These changes were introduced in December 2020 and their associated activities will be more fully reflected in the individual Committee reports in the 2021 Annual Report and Accounts.

Annual evaluation

Each year, the Board is required to carry out an evaluation of its own effectiveness as required by the Code. The last external review was held in 2018. For 2020, it was agreed to hold an internal review conducted by the Chairman. The process consisted of an externally facilitated questionnaire which was completed online by Directors and subsequently discussed with them, individually and collectively, by the Chairman. The key themes that had arisen from the 2019 process and which remained relevant for the 2020 review included:

- Succession planning and Board composition;
- Board performance and strategy; and
- Employee culture.

Governance and nomination committee report continued

The results of the evaluation were discussed at the February 2021 Board meeting. Overall the Board scored above benchmark, with particular strengths in areas such as Board dynamics and its Committee structure. Further focus was recommended in areas such as the process for optimising the strategic dialogue; in understanding certain differences in perceptions; and in relation to succession planning. It was agreed that these themes would be addressed over the course of the year and in particular as part of the strategy day and within the agendas for planned site visits, should such visits be able to take place in 2021.

The performance review for the Chairman was conducted by the SID, Howard Paver. The review was conducted via an online questionnaire and a meeting of the Directors, without the Chairman present, was held to discuss the results. It was concluded that the Chairman had made a very good start to his tenure and observations were subsequently provided by the SID to the Chairman.

Re-election to the Board

Following a review of the effectiveness of the Board, the Governance and Nomination Committee confirms that it is satisfied with both the performance and the time commitment of each Director throughout the year. The Committee also remains 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 64 to 65.

Priorities for the coming year

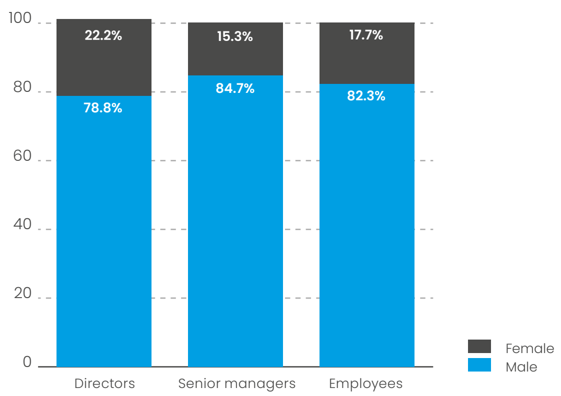
As well as addressing those issues highlighted in the annual evaluation, the main focus of the Committee in 2021 will be to ensure that the composition of the Board continues to complement the requirements of the Company and that succession planning of the Executive Directors, executive and senior management and development planning for high-potential individuals within the Company ensures that the Company's organisation has both the necessary capacity and capabilities in delivering its principal activities. Furthermore, and in line with its newly expanded remit, the Committee will exercise greater oversight in relation to matters concerning the Company's compliance with the Code.

Boardroom diversity

We are committed to recruiting a diverse boardroom and we appoint against the objectives we set ourselves. These are, to have the most effective Board possible and to be able to discharge our duties and responsibilities to the highest standard. We recognise that achieving further diversity within the Board is an imperative.

The Board has prioritised the discussion on diversity issues and the EnQuest-wide Diversity and Inclusion Policy aligns with the Company's Values, which incorporate both respect and openness. We seek diversity in our employee base, recognising that those from different backgrounds, experience and abilities can bring fresh ideas, perspectives and innovation to improve our business and working practices. During 2021, we expect to announce and implement a new Diversity and Inclusion strategy. More information on Company activities can be found on pages 42 to 43.

The chart below illustrates gender breakdown among our Directors and workforce as at 31 December 2020.



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

Safety, climate and risk committee report

> Our rigorous approach to risk management helped mitigate the potential impact of COVID-19 on our operations and underpins our approach to managing climate change-related risks.
>
> **Philip Holland**
> Chairman of the Safety, Climate and Risk Committee

Dear fellow shareholder

On behalf of the Board and my fellow Committee members, I am pleased to present EnQuest's Safety, Climate and Risk Committee Report, in what has been a productive, yet challenging year for the Committee. As outlined in this report, throughout 2020 we have continued to undertake detailed analysis of specific risk areas and associated controls, with particular attention being paid to enhancing the role of the Committee in safety and climate-related matters.

The rapid onset of the COVID-19 pandemic required an equally prompt organisational response. EnQuest adopted an approach based upon the principles of safety and welfare of people and security of supply and operations. The organisation moved quickly, evolving its existing risk management framework and communicable disease protocols, to implement an effective barrier model for the prevention, detection, control and mitigation of threats. Working in conjunction with a variety of stakeholders, including industry and medical organisations, a series of control arrangements were developed which included pre-mobilisation health screening and testing for all those mobilising to an EnQuest site, alongside onsite response to possible COVID-19 cases. Throughout 2020, a multi-discipline, Group-wide COVID-19 support group continued to coordinate efforts and follow best practice, and government and industry policy/guidelines in the developing crisis, enabling further enhancements to be quickly adopted. This rigorous approach to continuous risk management helped mitigate the potential impact of COVID-19 on our operations.

During the year, an independent safety review was undertaken to analyse the safety culture within EnQuest. The report provided positive feedback on the progress of cultural development, outlining a strong commitment to safety throughout EnQuest, with well-motivated and informed people supported by robust processes. Despite the progress made, isolated high-potential incidents in the UK and Malaysia did occur. Thankfully, there were no injuries from these incidents but this highlights the importance of the Group maintaining its focus on asset integrity, particularly given the age of many of its assets. As such, a Company-wide asset integrity review, supported by independent parties, has commenced with the review's focus being on the integrity management system across the Company and at an asset level. Such actions highlight how EnQuest aims for the highest standards in Health, Safety, Environment and Assurance ('HSEA'), and the Committee will continue to ensure that the Group strives for continuous improvement, such that personal integrity and asset integrity are never compromised and that personnel are not exposed to any danger to life or liberty. Throughout the year the Committee has continued to receive regular HSEA reports. I am pleased that the HSEA key performance indicators evolved in early 2020 have increased detail on the Group's HSEA performance with good progress having been made with aligning the Group's HSEA systems and processes between Malaysia and the UK North Sea.

Throughout 2020, the Committee considered the impact of the energy transition on the Group. After engaging with multiple stakeholders to assess the role of climate change and related financial and transition risks, the, Committee concluded that 'climate change' should be categorised as a standalone risk area within the Group's Risk Management Framework. This change underpins our approach to managing climate change-related risks as we navigate the energy transition. Reflecting the importance the Group places on evolving climate change-related matters, the Committee has been renamed and its terms of reference amended to enable it to support the Board with increased oversight of decarbonisation and climate change-related risk matters. In conjunction with this change, a working group, which will report to this Committee, has been established to identify and implement economically viable emissions savings across the Group's portfolio of assets, to facilitate delivery against the Group's stated aim of reducing absolute Scope 1 and 2 CO_2 equivalent emissions from its existing operations by 10% over the period 2021 to 2023.

The Committee has determined that the Group continues to evolve positively its processes for identifying and managing risks and mitigating their impact, which in turn supports the Group in achieving its strategy. For example, the Committee reviewed management's assessment of risk and related mitigations associated with the UK's planned withdrawal from the European Union through the review of the Group's Risk Register. Further, undertaking in-depth analysis of specific risk areas (as described below) has allowed the Committee to mitigate any potential deficiencies and refine existing controls for reviewed risk areas. The Committee remains confident that these exercises will be critical in achieving excellence and robustness in the Group's risk management processes.

The report also looks ahead to those matters that I expect the Committee will be considering in the forthcoming year, including further detailed analysis of key risk areas, and continuous improvement in the evolution and application of our Risk Management Framework.

Philip Holland
Chairman of the Safety, Climate and Risk Committee
24 March 2021

Safety, Climate and Risk Committee membership

Membership of the Committee and attendance at the four meetings held during 2020 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
Philip Holland	25 January 2016	4
Laurie Fitch[1]	8 January 2018	4
Carl Hughes	1 January 2017	4
Farina Khan[2]	1 November 2020	1/1
John Winterman[3]	9 December 2020	–
Liv Monica Stubholt[4]	15 February 2021	–

Notes:
1 Laurie Fitch stepped down from the Board upon expiry of her service agreement on 8 January 2021
2 Farina Khan became a member of the Committee at the same time as her appointment to the Board on 1 November 2020
3 John Winterman joined the Committee on 9 December 2020
4 Liv Monica Stubholt became a member of the Committee at the same time as her appointment to the Board on 15 February 2021

Safety, Climate and Risk Committee responsibilities

The main responsibilities of the Committee are to:
- Undertake in-depth analysis of specific risks, including emerging risks, in relation to the Company and consider existing and potential new controls;
- Support the implementation and progression of the Group's Risk Management Framework;
- Review the Group's HSEA performance and the effectiveness of its policies and guidelines in managing HSEA risks and reporting;
- Conduct detailed reviews of key non-financial risks not reviewed within the Audit Committee;
- Assess the Group's exposure to managing risks from 'climate change' and review actions to mitigate these risks in line with its assessment of other risks;
- Review and monitor the Group's decarbonisation activities, including reviewing the adequacy of the associated framework; and
- Review targets and milestones for the achievement of decarbonisation objectives.

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

Committee activities during the year

During 2020, the Committee:
- Considered the impact of COVID-19 and the Group's Transformation 2020 plans on HSEA processes and culture and the Group's Risk Management Framework;
- Continued to refine the Group's Risk Management Framework and continuous improvement planning;
- Reviewed the Group Risk Register, assurance map and risk report (focusing on the most critical risks and emerging and changing risk profiles. This included obtaining assurance that the risks associated with climate change are appropriately assessed and incorporated within relevant risk areas);
- Undertook a deep-dive review of 'climate change' risk and concluded that it would be added as a standalone risk within the Group's 'Risk Library' along with associated remedial controls;
- Undertook deep-dive reviews of 'subsurface and reserves replacement' risks and the HSEA major accident hazard barrier model, in each case identifying improvements to certain controls; and
- Received routine updates on HSEA (including reviewing the Group's performance along with ongoing and planned HSEA activities) and cyber-security risk (covering the evolving key risks and the remedial solutions such as disaster recovery plans and technical design standards), both of which continue to be key focus areas for the Committee.

For further information on these risks, please see the Risks and Uncertainties section on pages 47 to 59.

Priorities for the coming year

In 2021, the Committee is continuing its focus on undertaking detailed analysis of key risk areas, including those relating to HSEA and the results of the asset integrity review, 'climate change' and in particular emissions reductions, human resources and project execution and delivery and will closely monitor relevant developments that may arise in relation to the UK's exit from the European Union. Ongoing assessment of existing and emerging risks, and the associated controls in place, will ensure that their potential effects continue to be identified, considered and risk assessed appropriately within the Group's Risk Management Framework.

Technical and reserves committee report

> Our excellent interaction and in-depth reviews with EnQuest technical teams has provided additional assurance to assist in the Board's decisions.
>
> **John Winterman**
> Chairman of the Technical and Reserves Committee

Dear fellow shareholder

On behalf of the Board and my fellow Committee members, I am pleased to present EnQuest's first Technical and Reserves Committee Report. The Committee was established in October 2019 and is comprised of Board members with technical backgrounds and associated knowledge to support management and the wider Board in their decision making. The Committee had a busy inaugural year and despite the restrictions of the pandemic, continued to meet virtually to support the requirements of the Company. The Committee is evolving, but has had excellent interaction with the global EnQuest technical staff even in a virtual world. Once a review has been completed the outcome is communicated to the management and the full Board and is utilised in decision making, thus giving additional assurance.

Over 2020, a large proportion of the Committee's time was spent reviewing technical aspects of various business development opportunities which had been recommended to the Committee for further in-depth discussion. For confidentiality reasons I am unable to report on these in detail; however, they did include the purchase of a 40.81% equity interest in the Bressay oil field in July 2020, which provided the Company with an addition of up to 115 MMbbls of net 2C resources and in January 2021, the agreement to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, which will allow the Company to add immediate material production and cash flow to its business.

Reserves replacement is considered a principal risk for the Company (see page 57 for more detail), and as such the Committee reviews the annual reserves report each year to ensure that reserves are booked in compliance with industry standards and that we continue to mature discovered resources into reserves.

The Committee conducted a strategy session in July 2020 which considered: the Company's business development strategy going forward in the context of the changing macroenvironment; ESG considerations on decision making; balance sheet constraints and funding strategies; and reviewed opportunities that provided a competitive advantage, which resulted in the identification of the appropriate type of transactions.

The Committee has recently reviewed and updated its terms of reference, to reflect that it became the Technical and Reserves Committee in December 2020. In updating its terms of reference the Committee also strengthened how it reported back to the Board.

John Winterman
Chairman of the Technical and Reserves Committee
24 March 2021

Technical and Reserves Committee responsibilities
The main responsibility of the Committee is to provide the Board with additional technical insight when making Board decisions. The Committee's full terms of reference can be found on the Company's website, www.enquest.com, under Corporate Governance.

Technical and Reserves Committee membership
Membership of the Committee and attendance at the seven meetings held during 2020 is provided in the table below:

Member	Date appointed Committee member	Attendance at meetings during the year
John Winterman	15 October 2019	7
Philip Holland	15 October 2019	7
Martin Houston	15 October 2019	7
Howard Paver	15 October 2019	7

Committee activities during the year
During 2020, the Committee:
- Reviewed the Company's annual reserves report;
- Provided input into the 2020 Business Plan;
- Considered business development opportunities;
- Held post project reviews;
- Oversaw a deep dive review of the Company's subsurface risk and reserves replacement risk; and
- Refreshed its terms of reference

Priorities for the coming year
In 2021, the Committee is continuing its focus on supporting the business, in particular when assessing new opportunities, reserve and resource maturation and asset integrity management across its assets.

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 2020.

Stefan Ricketts
Company Secretary

Directors

The Directors' biographical details are set out on pages 64 to 65. Farina Khan and Liv Monica Stubholt will offer themselves for election at the Annual General Meeting ('AGM') on 12 May 2021, with the other Directors offering themselves for re-election.

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. Such indemnities are in a form consistent with the limitations imposed by law.

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'):

Name	Number of Ordinary shares held at 31 December 2020	% of issued share capital held at 31 December 2020[2]	Number of Ordinary shares held as at 12 March 2021	% of issued share capital held as at 12 March 2021[2]
Bseisu consolidated interests[1]	179,705,454	10.60	179,705,454	10.60
Aberforth Partners LLP	136,634,662	8.06	138,456,662	8.16
Schroders Plc	114,451,328	6.75	104,637,990	6.17
Baillie Gifford & Co Ltd	95,755,059	5.65	94,148,483	5.55
Hargreaves Lansdown Asset Management	86,820,899	5.12	83,203,992	4.91
Dimensional Fund Advisors	70,038,562	4.06	63,797,195	3.76

Notes:
1 161,380,583 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 18,157,324 shares are also held by The Amjad & Suha Bseisu Foundation and 167,547 shares are held directly by Amjad Bseisu
2 Rounding applies

Directors' interests

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

Name	At 31 December 2020	At 24 March 2021
Amjad Bseisu[1]	179,705,454	179,705,454
Martin Houston	500,000	500,000
Carl Hughes	103,571	103,571
Philip Holland	279,882	279,882
Farina Khan	0	200,000
Howard Paver	433,276	433,276
Liv Monica Stubholt	n/a	n/a
Jonathan Swinney	762,894	762,894
John Winterman	28,571	28,571

Note:
1 161,380,583 shares are held by Double A Limited, a discretionary trust in which the extended family of Amjad Bseisu has a beneficial interest. 18,157,324 shares are also held by The Amjad & Suha Bseisu Foundation and 167,547 shares are held directly by Amjad Bseisu

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. At 31 December 2020 there were 1,695,801,955 Ordinary shares in issue. 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 20 to the financial statements on page 153. No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2020 or up to and including 24 March 2021, being the date of this Directors' report. At the 2021 AGM, shareholders will be asked to renew authorities relating to the issue and purchase of Company shares. Details of the resolutions are contained in the Notice of AGM, which can be found on the Company's website www.enquest.com/shareholder-information/annual-general-meetings.

Company share schemes

The trustees of the Employee Benefit Trust ('EBT') purchased 9,562,007 Ordinary shares in the Company during 2020, funded by a contribution by EnQuest Britain Limited of £1 million. At year end, the EBT held 2.8% of the issued share capital of the Company (2019: 2.55%) for the benefit of employees and their dependants. The voting rights in relation to these shares are exercised by the trustees.

Employee engagement

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 weekly business briefings, regular country-level Town Hall meetings, Global Town Hall meetings (whereby staff in all geographic locations are invited to attend), email and other electronic communications, particularly the Company's intranet and internal 'Yammer' channel, the latter of which was introduced in early 2020. Face-to-face briefing meetings would also normally take place however, during the COVID-19 pandemic, reliance has through necessity been placed on virtual communications. Appropriate consultations take place with employees when business change is undertaken, as was the case during the UK transformation programme that took place between April and August 2020 (see page 16 for more information). An Employee Forum, to allow for direct employee engagement with the Board of Directors, was established in early 2019 and information on its activities can be found on page 42. EnQuest offers employees the opportunity to participate directly in the success of the Company through participation in share schemes, such as the Save As You Earn ('SAYE') Share Scheme. 69% of eligible employees currently participate in SAYE. Eligibility for participation in other share schemes depends on a number of factors, such as seniority.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a General Meeting of shareholders. The Company's Articles, found on the Company's website at www.enquest.com/corporate-governance, contain provisions on the appointment, retirement and removal of Directors, along with their powers and duties. While there are no specific restrictions, the transfer of shares in the Company is also provided for in the Articles.

Annual General Meeting

The Company's AGM will be held at 5th Floor, Cunard House, 15 Regent Street London, SW1Y 4LR on 12 May 2021. 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/shareholder-information/annual-general-meetings.

Registrars

In connection with the Ordinary shares traded on the London Stock Exchange, the Company's share registrar is Link 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 179.

Political donations

At the 2020 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 2020 by the Company or any of its subsidiaries.

Dividends

The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the immediate future. However, the Board anticipates reviewing the policy when appropriate, the timing of which will be subject to 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, including the Company's expected future cash flows.

Change of control agreements
The Company (or other members of the Group) are 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 senior 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 commitment to provide that facility and to require prepayment of the credit which may already have been advanced to the Company and the other borrowers under the facility;

(b) the working capital facility, originally dated 1 December 2017, in respect of the operation of the Sullom Voe Terminal, 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 to require prepayment of the credit which may already have been advanced to the borrower (EnQuest Heather Limited) under the facility;

(c) the security trust and waterfall deed, originally dated 24 January 2017, in respect of the transaction regarding the Magnus assets with BP Exploration Operating Company Limited, which includes provisions that, upon a change of control, the security trustee in favour of BP Exploration Operating Company Limited may take control of the accounts relating to the Magnus assets;

(d) the Company's Euro Medium Term Note Programme (under which the Company has in issue Euro Medium Term Notes originally due 2022 with an aggregate nominal amount of approximately £190.5 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

(e) under the indenture governing the Company's high yield notes originally due 2022, which at the date of this report have an aggregate nominal amount of approximately $799.2 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.

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
Following a tender process, the Audit Committee recommended to the Board that Deloitte be appointed as auditor of the Company for the financial year ended 2020, and this was duly accepted and approved by ordinary resolution at the Company's 2020 AGM held on 21 May 2020. Deloitte has expressed its willingness to continue in office as auditor. Accordingly, an ordinary resolution to reappoint Deloitte as auditor of the Company and authorising the Directors to set its remuneration will be proposed at the forthcoming AGM. Information on the Company's policy on audit tendering and rotation is found on page 81.

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 01 to 63. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial review on pages 26 to 31. The Board's assessment of going concern and viability for the Group is set out on pages 30 to 31. In addition, note 27 to the financial statements on pages 162 to 165 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.

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 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. 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 streamlined energy and carbon reporting guidance March 2019'. The Streamlined Energy & Carbon Reporting ('SECR') report includes assets which are in the operational control of EnQuest.

		2020		2019		2015[1]
Emissions		SECR (Operational Control) Scope	ISO-14064 Verified Scope	SECR (Operational Control) Scope	ISO-14064 Verified Scope	Baseline
	Total Emissions tCO_2e[2]	1,342,765	921,804	1,511,650	1,134,581	1,149,743
Scope 1	Extraction Emissions tCO_2e[2]	1,232,911	812,750	1,403,340	1,027,071	868,287
Scope 2	Extraction Emissions tCO_2e[2]	1,394	594	1,448	648	1,405
	Extraction Intensity ratio $kgCO_2e$/boe[2]	40.63	31.69	40.55	36.27	45.65
Scope 1	Terminal (SVT) Emissions tCO_2e[2,3]	31,125	31,125	30,230	30,230	152,191
Scope 2	Terminal (SVT) Emissions tCO_2e[2,3]	77,335	77,335	76,632	76,632	127,680
	Terminal (SVT) Intensity ratio $kgCO_2e$/boe[2] throughput[3]	4.31	4.31	3.47	3.47	6.87

		2020[4]	
Energy Consumption[5]		SECR (Operational Control) Scope	ISO-14064 Verified Scope
	Total kWh	5,594,120,915	3,856,964,264
Scope 1	Extraction kWh	5,019,083,379	3,283,035,465
Scope 2	Extraction kWh	3,577,499	2,468,762
	Extraction Intensity ratio kWh/boe[2]	165.34	128.01
Scope 1	Terminal (SVT) kWh[2,3]	151,047,275	151,047,275
Scope 2	Terminal (SVT) kWh[2,3]	420,412,762	420,412,762
	Terminal (SVT) Intensity ratio kWh/boe[2] throughput[3]	22.70	22.70

		2020[4]	
UK & Overseas Breakdown		SECR (Operational Control) Scope	ISO-14064 Verified Scope
Scope 1	UK Onshore tCO_2e[2]	31,146	31,146
	UK OffShore tCO_2e[2]	812,730	812,730
	Non-UK tCO_2e[2]	420,160	0
Scope 2	UK Onshore tCO_2e[2]	77,901	77,901
	UK OffShore tCO_2e[2]	0	0
	Non-UK tCO_2e[2]	828	28
Scope 1	UK Onshore kWh	151,149,442	151,149,442
	UK Offshore kWh	3,282,933,298	3,282,933,298
	Non-UK kWh	1,736,047,914	0
Scope 2	UK Onshore kWh	422,840,180	422,840,180
	UK Offshore kWh	0	0
	Non-UK kWh	1,150,081	41,344

Notes:
1 When it is considered that the portfolio of assets under a Company's operational control has changed significantly, the baseline, which is based on Verified Scope data, is recalculated to an appropriate comparative period for which good data is available. As such, the baseline is currently 2015
2 tCO_2e = tonnes of CO_2 equivalent. $kgCO_2e$ = kilogrammes of CO_2 equivalent. BOE = barrel of oil equivalent. EnQuest is required to report the aggregate gross (100%) emissions for those assets over which it has operational control. As such, the extraction intensity ratio is calculated by taking the aggregate gross (100%) reported Scope 1 and 2 $kgCO_2e$ from those assets divided by the aggregate gross (100%) hydrocarbon production from the same assets. The throughput ratio is calculated by taking the aggregate gross (100%) reported Scope 1 and 2 $kgCO_2e$ from SVT divided by the aggregate total throughput at the terminal
3 Note on Uncertainty: The uncertainty for total emissions within the verified scope is calculated as 3%. SVT emissions in isolation are not within 5% due to the steam and electricity meters for SVT not having supportable uncertainties
4 2020 is the first SECR reporting year requiring energy consumption reporting for EnQuest. In future years, the previous year energy consumption will also be reported for comparison purposes
5 Kilo-watt hour (kWh) data is reported on a net calorific value basis throughout

Energy Efficiency Strategy

A number of emission reduction opportunities have been identified and are underway or are being developed as projects. This includes compressor remapping on Kittiwake, and the commissioning of Waste Heat Recovery Units on Kraken, both completed during 2020, with projects to install generator turbine water wash facilities and the use of high-efficiency particulate air filters on Magnus in progress. It is recognised that improved environmental performance is a continuous process and as such, a working group has been set up dedicated to the identification, maturation and implementation of economically viable emissions savings opportunities across the Group's portfolio of assets.

SECR (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 SECR and ISO 14064-1 guidance, only those assets where EnQuest has operational control greater than 50% are captured within the SECR reporting boundary. Where EnQuest has less than 50% operational control of an asset, it is not included within the SECR reporting boundary. Hence, the SECR operational control boundary is different to EnQuest's financial boundary. In line with SECR guidance, this is fully disclosed.

ISO-14064 Verified Scope

EnQuest has voluntarily opted to have emissions reported within the SECR 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 SECR guidance. Some data for the Group's Malaysian assets (Seligi and associated land-based offices), do not currently meet ISO 14064-1 requirements, and so are excluded from the ISO 14064-1 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.

Further disclosures

The Company has set out disclosures in the Strategic report in accordance with Section 414C(11) of the Companies Act (2006) information required by Schedule 7 to the Accounting Regulations to be contained in the Directors' report. These disclosures and any 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, The Companies (Miscellaneous Reporting) Regulations 2018 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	15
Acquisitions and disposals	168
Fair treatment of disabled employees	43
Anti-slavery disclosure	60
Corporate governance statement	70–74
Gender diversity	42–43, 104
Financial risk and financial instruments	162–165
Important events subsequent to year end	168
Branches outside of the UK	166
s.172 statement and stakeholder engagement	2–3
Research and development	n/a
Related party transactions	162

The Directors' report was approved by the Board and signed on its behalf by the Company Secretary on 24 March 2021.

Stefan Ricketts
Company Secretary

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 ('IFRS') 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 ('IAS') 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 IFRS 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 the 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 78 of the Annual Report.

Independent Auditor's Report to the Members of EnQuest PLC

For the year ended 31 December 2020

Report on the audit of the Financial Statements

1. Opinion

In our opinion:
- the Financial Statements of EnQuest PLC (the 'Parent Company') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:
- the Group Income Statement;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Cash Flow Statement;
- the related notes 1 to 30 to the Group Financial Statements; and
- the related notes 1 to 11 to the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and issued by the IASB. 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).

2. 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.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (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. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 5(g) to the Financial Statements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

3. Material uncertainty related to going concern

We draw attention to note 2 in the Financial Statements, which indicates that the Revolving Credit Facility expires in October 2021 and the new facility has not been signed at the time of publication of the Group's results. As stated in note 2, these events or conditions, along with the other matters set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:
- we obtained an understanding of the relevant controls relating to the going concern assumption;
- we have tested the clerical accuracy of the model used to prepare the going concern forecasts;
- we have assessed the historical accuracy of forecasts prepared by management;
- we have verified the consistency of key inputs relating to future costs, hedging and production to other financial and operational information obtained during our audit;
- we have agreed the available facilities to underlying agreements and external confirmation from debt providers and testing covenant calculation forecasts performed by management;
- we have challenged management as to the reasonableness of oil and gas pricing assumptions applied, based on benchmarking to market data;
- we have assessed and concluded on the reasonableness of management's sensitivity analysis on the forecast, including the downside scenarios such as lower oil prices and reduced production, and considered the mitigating actions highlighted by management in the event that they were required; and
- we have challenged management as to the adequacy of disclosures made in the Annual Report and Accounts.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the Financial Statements of the material uncertainty related to the Group's and Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see section 3 above, *Material uncertainty related to going concern*); • Impairment of oil & gas assets and goodwill and valuation of Magnus contingent consideration; and • Valuation of decommissioning liability. These key audit matters were also identified by the Group's auditor in the prior year, Ernst & Young, with the exception of the valuation of decommissioning liability which we have assessed as a key audit matter in the current year due to the highly judgemental nature of the assumptions, in particular gross cost estimates.
Materiality	The materiality that we used for the audit of the Group Financial Statements was $16.5 million which was determined on the basis of 3% of EBITDA (earnings before interest, tax, depreciation, and amortisation). Our materiality represents 2.9% of reported loss before tax.
Scoping	EnQuest PLC has two significant operating segments, being the North Sea and Malaysia. A full scope audit was performed by the Group audit team on the North Sea operations, and a full scope audit was performed by the Malaysia component team on the Malaysian operations. In the current year the North Sea and Malaysia components accounted for 100% of the Group's revenue, 100% of the Group's EBITDA and 100% of the Group's net assets. The Malaysia component contributed 7% of the Group's revenue, 4% of the Group's EBITDA and 6% of the Group's total assets.

5. 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 of 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 forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration

Key audit matter description	*As at 31 December 2020, the net book value of oil and gas assets is $2,124 million (2019: $2,750 million) and management have recorded a pre-tax impairment charge of $422 million (2019: $638 million) against oil and gas assets, including related right of use assets, as disclosed in note 10.* *As at 31 December 2020, the net book value of goodwill is $134 million (2019: $134 million). No goodwill impairment charge has been recorded, as disclosed in note 11.* *As a result of the above, management performed an assessment for the Parent Company investment carrying value by reference to IAS 36 Impairment of Assets and IFRS 9 Financial Instruments. As at 31 December 2020, the net book value of investments in the Parent Company is $71 million (2019: $1,141 million) and management have recorded an impairment charge of $1,072 million (2019: $244 million), as disclosed in note 3 to the Parent Company accounts.* *The valuation of Magnus contingent consideration is $522 million (2019: $657 million) as at 31 December 2020, based on the fair value of the future cash flows for the Magnus asset, as disclosed in note 22. The acquisition of Magnus resulted in the recognition of contingent consideration to both the initial 25% acquisition in 2017 and the subsequent 75% acquisition in 2018. The key assumptions in the calculation of the valuation of Magnus contingent consideration model are consistent with those for assessing the oil and gas assets. This is considered to be a key audit matter because the valuation model is complex involving significant judgement in the assumptions noted below. The Group's accounting policy is detailed in note 22.* The oil and gas assets are required to be reviewed for indicators of impairment, and then tested for impairment where indicators are identified. Goodwill is required to be tested for impairment at least annually. Oil and gas assets and goodwill are subject to significant estimation uncertainty, as set out below and further disclosed in note 2. Consequently, they represent a high risk of impairment. We therefore identified a key audit matter that these oil and gas assets and goodwill are not recoverable. The impairment recorded in the year on oil and gas assets was primarily because of a change in the estimation of commodity prices. There was no impairment recognised on goodwill as the recoverable amount was higher than the book value. The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable. The key assumptions and judgements underpinning the impairment reviews include: • forecast future commodity prices, including the impact of climate change on those prices; • estimates of oil and gas reserves; • forecast future production; and • determining appropriate discount rates. The Group's accounting policies are detailed in notes 2, 10 and 11, these notes also include details of the sensitivity to changes in assumptions. The Group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2020 on page 79.

5.1. Impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration continued

How the scope of our audit responded to the key audit matter	**Procedures on the overall impairment review and Magnus contingent consideration valuation** • we have understood management's process for identifying indicators of impairment and for performing their impairment assessment; • we obtained an understanding of the relevant controls and then evaluated the associated design and implementation of such controls relating to the asset impairment models and Magnus contingent consideration, the underlying forecasting process and the impairment and valuation reviews performed; • we evaluated and challenged the key assumptions and inputs into the impairment and contingent consideration models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. We evaluated the current year changes to the key assumptions; • we worked with our modelling specialists to evaluate the arithmetical accuracy of the impairment model. We recalculated the impairment charges and headroom and agreed these to financial records; • we challenged management's cash generating unit determination and considered whether there was any contradictory evidence present; • we evaluated the impairment and valuation judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed; and • we evaluated and challenged management's disclosures including in relation to the sensitivity on oil and gas assets and goodwill, for oil and gas price assumptions to reduced demand scenarios, whether due to climate change or other reasons. **Procedures relating to forecast future cash flows and reserves estimates** • we assessed whether forecast cash flows were consistent with Board approved forecasts, and analysed reasonably possible downside sensitivities; • we evaluated production profiles by reference to external reserve estimates and agreed these to the cash flow forecast assumptions with involvement from our petroleum engineering experts; • we compared hydrocarbon production forecasts used in impairment tests to estimates and reports and our understanding of the life of fields; • we confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts, using our own internal specialists; and • we challenged and evaluated the adequacy of the opex and capex assumptions within the model. **Procedures relating to oil and gas prices** • we independently developed a reasonable range of forecasts based on external data, against which we compared the Group's future oil and gas price assumptions in order to challenge whether they are reasonable; • in developing this range we obtained a variety of reputable third party forecasts, peer information and market data; and • in challenging management's price assumptions, we considered the extent to which they and each of the forecast pricing scenarios obtained from third parties reflect the impact of lower oil and gas demand due to climate change. **Procedures relating to the discount rate** • we independently evaluated the Group's discount rates used in impairment tests and cash flow analysis with input from our valuation specialists; and • we assessed whether country risks and tax adjustments were appropriately reflected in the Group's discount rates. **Procedures relating to the impairment of Parent Company investments** • evaluating the methodology applied in reviewing the investments for impairment and assessing the recoverability of intercompany balances, with reference to the requirements of IAS 36 '*Impairment of Assets*' and IFRS 9 '*Financial Instruments*' respectively; • challenging the key assumptions within management's cash flow forecasts as described in the impairment of oil and gas assets and goodwill and Magnus contingent consideration valuation key audit matter; • testing the mechanical accuracy of the model; and • evaluating the adequacy of the Parent Company's disclosures regarding the investment impairment and intercompany recoverability in notes 3 and 4 of the Financial Statements.
Key observations	• we are satisfied that the key assumptions used to determine the recoverable amount of oil and gas assets and Magnus contingent consideration are materially appropriate, including estimates of reserves and production profiles; • the Group's future commodity price estimates are within the acceptable range of external sources; • we considered the sensitivity disclosure relating to the impact on the Group's goodwill impairment review of reasonable lower future commodity prices estimates with the conclusion that a change in assumption does not lead to impairment; • the Group's discount rate is lower than the range calculated by our internal valuation specialists, but this resulted in an immaterial difference in the impairment charge which would have increased the impairment recorded; • from the work performed, we are satisfied that the impairment recorded and the carrying value of the investments in subsidiaries are appropriate; and • based on the procedures performed we are satisfied that the Group's impairment charge is appropriately estimated in accordance with the requirements of IAS 36 '*Impairment of Assets*'.

5.2. Valuation of decommissioning liability

Key audit matter description	*The decommissioning provision at 31 December 2020 was $831 million (2019: $752 million). The provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development on the Group's assets. Further details on the key sources of estimation uncertainty underpinning the valuation of decommissioning provisions can be found in note 2. Details on the sensitivity to changes in key assumptions such as discount rates are disclosed in note 23.* Decommissioning liabilities are inherently judgemental areas, in particular in relation to gross cost estimates. The key assumptions and judgements underpinning the impairment reviews include: • cessation of production dates; • post cessation of production opex estimate; • rates and norms assumptions; • discount rate; and • inflation rate. The two key management estimates that could result in a material misstatement within the calculation: • internal well cost estimates included in the decommissioning model; and • internal cost reduction factors applied to the decommissioning model. The Group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2020 on page 79. The Group's accounting policies are detailed in note 23, which include details of the sensitivity to changes in assumptions.
How the scope of our audit responded to the key audit matter	**Procedures relating to internal control** • we assessed management's decommissioning processes, and the oversight and governance of those processes in relation to decommissioning; and • we obtained an understanding of the relevant controls and then evaluated the associated design and implementation of such controls relating to the decommissioning provision. **Procedures relating to the decommissioning model** • we held meetings with the Group's internal and external experts responsible for determining the 2020 decommissioning estimates to understand the underlying assumptions and methodology applied; • we assessed the technical competence, experience, objectivity and independence of internal and external experts; • we checked decommissioning calculations for clerical accuracy and compliance with IAS 37 *'Provisions'*; • we challenged the Group's other key assumptions including the cessation of production dates; post cessation of production opex estimate; rates and norms assumptions; discount rate; and inflation rates for reasonableness and consistency with the external market expectations; • we tested the mechanical accuracy of the cost estimate; • we tested for actual decommissioning costs incurred during the period and recognised against the provision; and • we evaluated and challenged management's disclosures including in the sensitivity of decommissioning assumptions. **Procedures on internal well cost estimates** • we challenged the Group's rate assumptions within the cost estimate (rig services; vessels; timewriting) and benchmarked to peer and market rates; and • we assessed the duration assumptions for plug and abandonment of wells. **Procedures on Internal cost reduction factors** • we challenged the Group's cost reduction factors applied to the decommissioning model through benchmarking and considering contradictory evidence from peers and agreeing to supporting evidence; and • obtained supporting evidence for the factors applied.
Key observations	• we have not identified any material errors in the decommissioning estimates and concluded that the inputs and key assumptions used to estimate the future costs were reasonable; • we are satisfied that the Group's decommissioning provision is appropriately estimated in accordance with the requirements of IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'; and • we are satisfied the disclosures in the Financial Statements are appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	$16.5 million (2019: $20.1 million)	$1.1 million (2019: $11.5 million)
Basis for determining materiality	We determined Group materiality on the basis of 3% of EBITDA (earnings before interest, tax, depreciation and amortisation) (2019: 2% of EBITDA). Management has presented a reconciliation of $550.6 million EBITDA to loss from continuing activities in the glossary of the Financial Statements.	We determined the Parent Company materiality based on 3% of net assets (2019: 1% of net assets).
Rationale for the benchmark applied	EBITDA was considered to be the most relevant benchmark as it is of most interest to stakeholders and is a key performance measure used by investors. The Group incurred losses before tax in both its Business performance and statutory results. Our materiality represents 2.9% of reported loss before tax.	The Parent Company acts principally as a holding company and therefore net assets is a key measure for this business.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Parent Company Financial Statements
Performance materiality	60% of Group materiality	60% of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered factors including our ability to rely on internal controls for procure to pay business cycle; the number of uncorrected and corrected misstatements identified in the previous audit; the stability of the finance team following restructuring completed in 2020; management's willingness to correct errors identified; and this being our first year appointed as auditor.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.8 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. In the current year we performed full scope audit procedures on the North Sea and Malaysia segments. Audit procedures were performed by the Group team for North Sea and Malaysia component team for Malaysia. We performed full scope audit procedures for Malaysia compared to audit procedures on specified balances by the predecessor auditor as this was our first year as auditors.

The materiality applied by the Malaysia component for the 2020 year end was $7.5 million.

In the current year the North Sea and Malaysia components, where we performed full scope audit procedures, accounted for 100% of the Group's revenue, 100% of the Group's EBITDA and 100% of the Group's net assets. The Malaysia component contributed 7% of the Group's revenue, 4% of the Group's EBITDA and 6% of the Group's total assets.

7.2. Our consideration of the control environment
We obtained an understanding of the relevant controls in relation to key business processes as well as IT systems that were relevant to the audit.

The key IT systems that were relevant to the audit were determined to be the financial reporting system and the inventory and payables systems for the Group, given the importance of IT to the recording of financial information and transactions. We worked with our IT specialists to test the operating effectiveness of the IT controls associated with these systems and we were able to rely on the IT controls where planned.

We relied on controls for the procure-to-pay business cycle by testing the key controls including:
- interface between the systems for approved invoices;
- purchase order approval restrictions;
- restrictions on ability to change vendor bank details; and
- automated 3 way match controls.

7.3. Working with other auditors
The North Sea component was audited by the Group team and we oversaw the Malaysia component audit through regular meetings and direct supervision. We were unable to visit Malaysia due to COVID-19 travel restrictions. We organised planning and working meetings virtually, led by the audit partner or other senior members of the engagement team. Throughout the year, the Group audit team has been directly involved in overseeing the component audit planning and execution, through frequent conversations, team meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to the component audit team and attended audit closing meetings. We are satisfied that the level of involvement of the lead audit partner and team in the component audit has been extensive, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

8. 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 contained within the Annual Report. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, 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's and the 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.

10. 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.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed on the following page.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:
- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit team and relevant internal specialists, including tax, valuations, IT, modelling, and oil and gas reserves regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:
- impairment of oil and gas assets and goodwill;
- estimation of oil & gas reserves;
- valuation of decommissioning provision;
- going concern; and
- revenue recognition crude oil.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority and the relevant tax compliance regulations in the jurisdictions in which EnQuest operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included Market Abuse regulation and environmental laws and regulations in the countries in which the Group operates and anti-bribery and corruption legislation.

11.2. Audit response to risks identified
As a result of performing the above, we identified impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration; valuation of decommissioning provision; and going concern related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:
- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant authorities where matters identified were significant;
- we identified the estimation of oil and gas reserves and revenue recognition of crude oil cut off as fraud risks which were not identified as key audit matters. For oil and gas reserves we evaluated production profiles by reference to external reserve estimates and confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts, using our own internal specialists and for revenue recognition of crude oil cut off we tested a sample of invoices from a population of December 2020 and January 2021 sales invoices to address the risk; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:
- the Directors' Statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 30 and 31;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 30 and 31;
- the Directors' statement on fair, balanced and understandable set out on page 78;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 47 to 59;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 80; and
- the section describing the work of the Audit Committee set out on pages 78 to 80.

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

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders in 21 May 2020 to audit the Financial Statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, being the year ending 31 December 2020.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 March 2021

Group Income Statement

For the year ended 31 December 2020

		2020			2019		
	Notes	Business performance $'000	Remeasurements and exceptional items (note 4) $'000	Reported in year $'000	Business performance $'000	Remeasurements and exceptional items (note 4) $'000	Reported in year $'000
Revenue and other operating income	5(a)	**856,870**	**8,778**	**865,648**	1,711,834	(65,375)	1,646,459
Cost of sales	5(b)	**(785,455)**	**(13,626)**	**(799,081)**	(1,243,570)	(378)	(1,243,948)
Gross profit/(loss)		**71,415**	**(4,848)**	**66,567**	468,264	(65,753)	402,511
Net impairment to oil and gas assets	4	**–**	**(422,495)**	**(422,495)**	–	(812,448)	(812,448)
General and administration expenses	5(c)	**(6,105)**	**–**	**(6,105)**	(7,661)	–	(7,661)
Other income	5(d)	**16,304**	**138,249**	**154,553**	3,446	–	3,446
Other expenses	5(e)	**(101,633)**	**(956)**	**(102,589)**	(21,881)	(31,735)	(53,616)
Profit/(loss) from operations before tax and finance income/(costs)		**(20,019)**	**(290,050)**	**(310,069)**	442,168	(909,936)	(467,768)
Finance costs	6	**(179,818)**	**(77,259)**	**(257,077)**	(206,596)	(57,165)	(263,761)
Finance income	6	**1,171**	**–**	**1,171**	2,416	–	2,416
Profit/(loss) before tax		**(198,666)**	**(367,309)**	**(565,975)**	237,988	(967,101)	(729,113)
Income tax	7	**172,479**	**(232,306)**	**(59,827)**	(23,648)	303,460	279,812
Profit/(loss) for the year attributable to owners of the parent		**(26,187)**	**(599,615)**	**(625,802)**	214,340	(663,641)	(449,301)
Total comprehensive loss for the year, attributable to owners of the parent				**(625,802)**			(449,301)

There is no comprehensive income attributable to the shareholders of the Group other than the loss for the year. Revenue and operating (loss)/profit are all derived from continuing operations.

	Notes						
Earnings per share	8	**$**		**$**	$		$
Basic		**(0.016)**		**(0.378)**	0.131		(0.274)
Diluted		**(0.016)**		**(0.378)**	0.130		(0.274)

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

Group Balance Sheet

At 31 December 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,633,917**	3,450,929
Goodwill	11	**134,400**	134,400
Intangible oil and gas assets	12	**27,546**	27,553
Deferred tax assets	7(c)	**503,946**	576,038
Other financial assets	19	**7**	11
		3,299,816	4,188,931
Current assets			
Inventories	13	**59,784**	78,644
Trade and other receivables	16	**118,715**	279,502
Current tax receivable		**5,601**	–
Cash and cash equivalents	14	**222,830**	220,456
Other financial assets	19	**–**	9,083
		406,930	587,685
TOTAL ASSETS		**3,706,746**	4,776,616
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**345,420**	345,420
Merger reserve	20	**–**	662,855
Share-based payment reserve	20	**1,016**	(1,085)
Retained earnings	20	**(411,076)**	(448,129)
TOTAL EQUITY		**(64,640)**	559,061
Non-current liabilities			
Borrowings	18	**37,854**	493,424
Bonds	18	**1,045,041**	966,231
Leases liability	24	**548,407**	614,818
Contingent consideration	22	**448,384**	545,550
Provisions	23	**741,453**	706,190
Deferred tax liabilities	7(c)	**6,385**	20,919
		2,827,524	3,347,132
Current liabilities			
Borrowings	18	**414,430**	165,589
Leases liability	24	**99,439**	101,348
Contingent consideration	22	**73,877**	111,711
Provisions	23	**98,954**	56,769
Trade and other payables	17	**255,155**	419,855
Other financial liabilities	19	**2,007**	11,073
Current tax payable		**–**	4,078
		943,862	870,423
TOTAL LIABILITIES		**3,771,386**	4,217,555
TOTAL EQUITY AND LIABILITIES		**3,706,746**	4,776,616

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

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital and share premium $'000	Merger reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2019	345,331	662,855	(6,884)	1,172	1,002,474
Profit/(loss) for the year	–	–	–	(449,301)	(449,301)
Total comprehensive loss for the year	–	–	–	(449,301)	(449,301)
Share-based payment	–	–	5,888	–	5,888
Shares issued on behalf of Employee Benefit Trust	89	–	(89)	–	–
Balance at 31 December 2019	**345,420**	**662,855**	**(1,085)**	**(448,129)**	**559,061**
Profit/(loss) for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Share-based payment	**–**	**–**	**3,401**	**–**	**3,401**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**(1,300)**	**–**	**(1,300)**
Write down of oil and gas assets	**–**	**(662,855)**	**–**	**662,855**	**–**
Balance at 31 December 2020	**345,420**	**–**	**1,016**	**(411,076)**	**(64,640)**

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

Group Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**567,830**	994,618
Cash received/(paid) on sale/(purchase) of financial instruments		**6,226**	4,936
Decommissioning spend	23	**(41,605)**	(11,131)
Income taxes paid		**(10,366)**	(26,152)
Net cash flows from/(used in) operating activities		**522,085**	962,271
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(131,376)**	(234,241)
Purchase of intangible oil and gas assets		**–**	(3,241)
Net cash received on termination of Tanjong Baram risk service contract	5(d)	**51,054**	–
Repayment of Magnus contingent consideration – Profit share	22	**(41,071)**	(21,581)
Interest received		**796**	1,225
Net cash flows (used in)/from investing activities		**(120,597)**	(257,838)
FINANCING ACTIVITIES			
Repayment of loans and borrowings		**(210,671)**	(394,025)
Repayment of Magnus contingent consideration – Vendor loan	22	**(20,702)**	(52,669)
Shares purchased by Employee Benefit Trust		**(1,153)**	–
Repayment of obligations under financing leases	24	**(123,001)**	(135,125)
Interest paid		**(42,961)**	(146,047)
Other finance costs paid		**(2,526)**	(2,130)
Net cash flows from/(used in) financing activities		**(401,014)**	(729,996)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**474**	(25,563)
Net foreign exchange on cash and cash equivalents		**2,482**	6,562
Cash and cash equivalents at 1 January		**218,199**	237,200
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**221,155**	218,199
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows	14	**221,155**	218,199
Restricted cash	14	**1,675**	2,257
Cash and cash equivalents per balance sheet		**222,830**	220,456

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 2020

1. Corporate information

EnQuest PLC ('EnQuest' or the 'Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales and listed on the London Stock Exchange and on the Stockholm NASDAQ OMX. The address of the Company's registered office is shown on page 166.

The principal activities of the Company and its subsidiaries (together the 'Group') are 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 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2021.

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

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

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

The Group's results on an IFRS basis are shown on the Group Income Statement as 'Reported in the year', being the sum of our Business performance results and our Remeasurements and exceptional items as permitted by IAS 1 (Revised) Presentation of Financial Statements. Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. For further information see note 4.

Going concern

The financial statements have been prepared on the going concern basis.

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 costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

The Group continues to monitor actively the impact on operations from COVID-19 and the health, safety and wellbeing of its employees is its top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. At the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected by COVID-19.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60.0/bbl from March to December 2021 and $58.0/bbl to the end of the first quarter 2022.

The Base Case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside Case'):

- 10.0% discount to Base Case prices resulting in Downside Case prices of $54.0/bbl from March to December 2021 and $52.2/bbl for 2022;
- Production risking of c.4.0% for 2021; and
- Incremental decommissioning security of $43 million is met through letters of credit resulting in a reduction in headroom as letters of credit are drawings under the RCF.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern with refinanced borrowing facilities for 12 months from the date of publication of its full year results. The Directors have also performed reverse stress testing on the Base Case, with the breakeven price for liquidity in the going concern period being c.$30/bbl under the assumption the existing facility is refinanced. In addition, under the Base Case prices, a minimum size of facility or alternative financing arrangement of approximately $100 million would be required to maintain positive headroom should the existing facility not be refinanced.

2. Summary of significant accounting policies continued

The quarterly liquidity covenant in the existing facility (the 'Liquidity Test') requires that the Group shows it has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date of 1 October 2021. The Liquidity Test will be applied for the quarters ended March 2021 and June 2021. The Liquidity Test assumptions include a price deck of the average forward oil price curve, minus a 10% discount, of 15 consecutive business days starting from approximately the middle of the previous quarter.

Under these prices, the Group forecasts no breaches in the Base Case for the Liquidity Test. By applying a discount in excess of 29% (19% in addition to the 10% discount stipulated in the Facility agreement), the Group would breach this covenant, prior to any mitigations such as asset divestments or other funding options. Under such an oil price scenario, the covenant breach would therefore require a covenant waiver to be obtained. The Directors are confident that waivers from the facility providers would be forthcoming. Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including refinancing, asset 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.

Within the going concern period, the RCF expires in October 2021 (see note 18). The Directors are confident that the Group will be able to refinance the RCF based on the Group's Base Case cash flow projections.

On 4 February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area for an initial consideration of $325 million, excluded from the Base Case. The Group also advised plans to finance the transaction through the combination of a new secured debt facility, an equity raise, and the interim period post-tax cash flows generated from the economic date of 1 January 2021 to transaction completion.

A final term sheet has been agreed following bilateral discussions with DNB and BNP (lead and co-technical banks) and has been approved by their respective credit committees. DNB and BNP have also received credit committee approval for material commitments to the new financing. The Directors are confident they will be able to complete the new financing given the feedback it has had from both current lenders and also potential new lenders. In the unlikely event the Suncor acquisition does not complete, the Directors are also confident they will be able to negotiate a new facility based on the Group's existing asset base or alternative financing arrangements such as a prepayment facility would be available to bridge any shortfall.

Whilst securing lenders' commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern, such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

New standards and interpretations

The following new standards became applicable for the current reporting period. No material impact was recognised upon application:

- Amendments to References to Conceptual Framework in IFRS Standards
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Impact of the initial application of COVID-19-Related Rent Concessions (Amendment to IFRS 16)

Standards issued but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of EnQuest PLC and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

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. The joint operating agreement is the underlying contractual framework to the joint arrangement, which is historically referred to as the joint venture ('JV'). The Annual Report and Accounts therefore refers to 'joint ventures' as standard terms used in the oil and gas industry, which is used interchangeably with joint operations.

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. During 2020, the Group did not have any material interests in joint ventures or in associates. During 2020, the Group did not have any material interests in joint ventures or in associates as defined in IAS 28.

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's financial statements are presented in US Dollars, the currency which the Group has elected to use as its presentation currency.

In the financial statements 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 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 Group income statement.

Critical accounting judgements
The Group assesses critical accounting judgements annually. The following are the critical judgements, apart from those involving estimations which are dealt with in the policy 'Key sources of estimation uncertainty' below, that the Directors have made in the process of applying the Group's accounting policies, which have the most significant effect on the amounts recognised in the financial statements.

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. The process in determining the estimates of oil and gas reserves requires critical judgement. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the Group's estimates of its oil and gas reserves and result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing and the calculation of contingent consideration, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method, as well as the going concern assessment.

The Group uses proven and probable ('2P') reserves (see page 24) as the basis for calculations of expected future cash flows from underlying assets because this represents the reserves management intend to develop. Third-party audits of EnQuest's reserves and resources are conducted annually.

Key sources of estimation uncertainty
The key sources of estimation uncertainty concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed on the following page:

2. Summary of significant accounting policies continued

Future oil prices
Future oil prices are a key driver of estimation affecting the recoverable amount of oil and gas assets and are used in the calculation of future cash flows which impact contingent consideration and decommissioning. Oil and gas price assumptions are reviewed and, where necessary, adjusted on a periodic basis. The estimates take into account existing prices impacted by changes in supply and demand as a result of COVID-19, historical trends and variability and other macroeconomic factors. Significant uncertainty exists regarding future long-term oil and gas prices with factors such as the energy transition to a lower-carbon economy being considered in the updated assumptions. Review includes benchmarking and analysis against forward curves from available market data and other third-party forecasts, as well as review and challenge by the Audit Committee.

A reduction or increase in future oil prices of 10%, based on the approximate volatility of historical oil prices, are considered to be reasonably possible changes for the purposes of sensitivity analysis and reflects the inherent uncertainty of forecasting future oil price and the uncertainty of the impact of the energy transition. The impact of this sensitivity is disclosed in notes 7, 10 and 22.

As a result of the decline in global oil demand resulting from the COVID-19 pandemic, and the potential for weaker demand to continue as the energy transition to a lower-carbon economy continues, the Group revised its price assumptions for impairment testing. Oil price assumptions based on an internal view of forward curve prices at 31 December 2020 are $47/bbl (2021), $55/bbl (2022), $60/bbl (2023) and $60/bbl real thereafter, inflated at 2.0% per annum from 2024 (2019: $63.0/bbl (2020), $65.0/bbl (2021), $67.0/bbl (2022) and $70.0/bbl real thereafter, inflated at 2% per annum from 2024). Discounts or premiums are applied to price assumptions based on the characteristics of the oil produced and the terms of the relevant sales contracts.

Impairment testing of oil and gas assets and goodwill and valuation of Magnus contingent consideration
Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the cash generating units ('CGU') to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets, which comprises asset-by-asset life of field projections using management's best estimates of oil and gas reserves, future oil prices and other Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Determination of the Magnus contingent consideration valuation requires an estimation of the fair value less costs to dispose of the cash generating unit, the Magnus asset. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets.

The calculation of the discounted cash flow models are based on the following:
- Oil prices (see above);
- Oil and gas reserves (see above);
- Production profiles based on internal life of field estimates including assumptions on performance of assets;
- Related life of field opex, capex and decommissioning costs derived from the Group's business plan adjusted for changes in timing based on the production profiles used as above; and
- Discount rates driven by a market participant's weighted average cost of capital.

The discount rate applied to fair value less costs of disposal calculations reflects management's estimate of a market participant weighted average cost of capital ('WACC'). The discount rate is a post-tax discount rate and is reviewed and, where necessary, adjusted on an annual basis. The post-tax discount rate applied to the Group's post-tax cash flow projections was 10.0% (2019: 10.0%). A reduction or increase in the discount rate of 1.0% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 10.

Decommissioning provision
Provisions for decommissioning and restoration costs are estimates based on current legal and constructive requirements, current technology and price levels for the removal of facilities and plugging and abandoning of wells. These parameters are based on information and estimates deemed to be appropriate by the Group at the current time. The eventual decommissioning and restoration costs are uncertain and estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in oil and gas reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Due to the significant estimates and assumptions, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The present value of the provision for decommissioning is calculated using amounts discounted over the useful economic life of the assets. The Group applies an annual inflation rate of 2.0% (2019: 2.0%) and an annual discount rate of 2.0% to the UK ('North Sea') assets and 3.0% to the Malaysian assets (2019: 2.0% for both the UK and Malaysia). A reduction or increase in the discount rate of 0.5% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 23.

Deferred taxation
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 assumptions and estimates relating to future oil prices and oil and gas reserves (as discussed above) and the estimated future costs, to assess the amount of deferred tax that can be recognised.

3. Segment information

Management has 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 2020 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	**792,508**	**62,917**	**–**	**855,425**	**–**	**855,425**
Other income	**7,224**	**–**	**280**	**7,504**	**2,719**	**10,223**
Total revenue	**799,732**	**62,917**	**280**	**862,929**	**2,719**	**865,648**
Income/(expenses) line items:						
Depreciation and depletion	**(430,169)**	**(15,638)**	**(56)**	**(445,863)**	**–**	**(445,863)**
Net impairment (charge)/reversal to oil and gas assets	**(422,495)**	**–**	**–**	**(422,495)**	**–**	**(422,495)**
Segment profit/(loss)(ii)	**(318,952)**	**4,153**	**3,372**	**(311,427)**	**1,358**	**(310,069)**
Other disclosures:						
Capital expenditure(iii)	**81,504**	**2,144**	**–**	**83,648**	**–**	**83,648**

Year ended 31 December 2019 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,530,343	145,749	–	1,676,092	–	1,676,092
Other income	10,500	–	486	10,986	(40,619)	(29,633)
Total revenue	1,540,843	145,749	486	1,687,078	(40,619)	1,646,459
Income/(expenses) line items:						
Depreciation and depletion	(518,785)	(14,490)	(77)	(533,352)	–	(533,352)
Net impairment (charge)/reversal to oil and gas assets	(812,448)	–	–	(812,448)	–	(812,448)
Impairment reversal of investments	(20)	–	–	(20)	–	(20)
Exploration write offs and impairments	(150)	–	–	(150)	–	(150)
Segment profit/(loss)(ii)	(470,351)	49,429	(4,142)	(425,064)	(42,704)	(467,768)
Other disclosures:						
Capital expenditure(iii)	164,818	15,837	–	180,655	–	180,655

(i) 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
(ii) Inter-segment revenues are eliminated on consolidation. All other adjustments are part of the reconciliations presented further below
(iii) Capital expenditure consists of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries

Reconciliation of profit/(loss):

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Segment profit/(loss)	**(311,427)**	(425,064)
Finance income	**1,171**	2,416
Finance expense	**(257,077)**	(263,761)
Gain/(loss) on oil and foreign exchange derivatives	**1,358**	(42,704)
Profit/(loss) before tax	**(565,975)**	(729,113)

Revenue from four customers relating to the North Sea operating segment each exceeds 10% of the Group's consolidated revenue arising from sales of crude oil, with amounts of $188.9 million, $143.4 million, $113.1 million and $84.9 million per each single customer (2019: Three customers; $307.1 million, $266.1 million and $211.0 million per each single customer).

4. Remeasurements and exceptional items

Accounting policy

As permitted by IAS 1 (Revised) Presentation of Financial Statements, certain items of income or expense which are material are presented separately. Additional line items, headings, sub-totals and disclosures of nature and amount are presented to provide relevant understanding of the Group's financial performance.

Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. The items that the Group separately presents as exceptional on the face of the Group income statement 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. Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year-on-year. If an item is assessed as a remeasurement or exceptional item, then subsequent accounting to completion of the item is also taken through remeasurement and exceptional items. Management has exercised judgement in assessing the relevant material items disclosed as exceptional.

The following items are classified as remeasurements and exceptional items ('exceptional'):

- Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end are recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures;
- Impairments on assets, including other non-routine write-offs/write-downs where deemed material, are remeasurements and are deemed to be exceptional in nature;
- Fair value accounting arising in relation to business combinations is deemed as exceptional in nature, as these transactions do not relate to the principal activities and day-to-day Business performance of the Group. The subsequent remeasurement of contingent assets and liabilities arising on acquisitions, including contingent consideration, are presented within remeasurements and are presented consistently year-on-year; and
- Other items that arise from time to time that are reviewed by management as non-Business performance and are disclosed further below.

Year ended 31 December 2020 $'000	**Fair value remeasurement(i)**	**Impairments and write offs(ii)**	**Other(iii)**	**Total**
Revenue and other operating income	**8,778**	**–**	**–**	**8,778**
Cost of sales	**(1,932)**	**–**	**(11,694)**	**(13,626)**
Net impairment (charge)/reversal on oil and gas assets	**–**	**(422,495)**	**–**	**(422,495)**
Other income	**138,249**	**–**	**–**	**138,249**
Other expense	**–**	**–**	**(956)**	**(956)**
Finance costs	**–**	**–**	**(77,259)**	**(77,259)**
	145,095	**(422,495)**	**(89,909)**	**(367,309)**
Tax on items above	**(57,687)**	**163,267**	**33,175**	**138,755**
De-recognition of undiscounted deferred tax asset(iv)	**–**	**(371,061)**	**–**	**(371,061)**
	87,408	**(630,289)**	**(56,734)**	**(599,615)**

Year ended 31 December 2019 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(65,375)	–	–	(65,375)
Cost of sales	(378)	–	–	(378)
Net impairment (charge)/reversal on oil and gas assets	–	(812,448)	–	(812,448)
Other expenses	(15,520)	(170)	(16,045)	(31,735)
Finance costs	–	–	(57,165)	(57,165)
	(81,273)	(812,618)	(73,210)	(967,101)
Tax on items above	31,735	250,235	21,490	303,460
	(49,538)	(562,383)	(51,720)	(663,641)

(i) Fair value remeasurements include unrealised mark-to-market movements on derivative contracts and other financial instruments and the impact of recycled realised gains and losses out of 'Remeasurements and exceptional items' and into Business performance profit or loss of $6.8 million. Other income relates to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $138.2 million (note 22) (2019: other loss of $15.5 million)
(ii) Impairments and write offs include an impairment of tangible oil and gas assets totalling $422.5 million (note 10) (2019: impairment of $637.5 million plus other related intangibles)
(iii) Other items mainly relate to unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $77.3 million (note 22) (2019: $57.2 million), provision for the PM8/Seligi riser repair $5.9 million (note 23), loss on derecognition of assets related to the Seligi riser detachment $1.0m (note 5(b)) and the redundancy costs in relation to the Group's transformation programme of $5.8 million (2019: the cost for settlement of the historical KUFPEC claim of $15.6 million)
(iv) Non-cash partial de-recognition of undiscounted deferred tax assets given the Group's lower oil price assumptions

5. Revenue and expenses

(a) Revenue and other operating income

Accounting policy

Revenue from contracts with customers

The Group generates revenue through the sale of crude oil, gas and condensate to third parties, and through the provision of infrastructure to its customers for tariff income. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 days or less upon performance of the obligation.

Sale of crude oil, gas and condensate

The Group sells crude oil, gas and condensate directly to customers. The sale represents a single performance obligation, being the sale of barrels equivalent to the customer on taking physical possession or on delivery of the commodity into an infrastructure. At this point the title passes to the customer and revenue is recognised. The Group principally satisfies its performance obligations at a point in time; the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Transaction prices are referenced to quoted prices, plus or minus an agreed discount rate, if applicable.

Tariff revenue for the use of Group infrastructure

Tariffs are charged to customers for the use of infrastructure owned by the Group. The revenue represents the performance of an obligation for the use of Group assets over the life of the contract. The use of the assets is not separable as they are interdependent in order to fulfil the contract and no one item of infrastructure can be individually isolated. Revenue is recognised as the performance obligations are satisfied over the period of the contract, generally a period of 12 months or less, on a monthly basis based on throughput at the agreed contracted rates.

Other operating income

Other revenue includes rental income, which is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured.

The Group enters into oil derivative trading transactions which can be settled net in cash. Accordingly, any gains or losses are not considered to constitute revenue from contracts with customers in accordance with the requirements of IFRS 15, and are included within other operating income (see note 19).

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**779,865**	1,548,177
Revenue from gas and condensate sales(i)	**60,486**	120,242
Tariff revenue	**15,074**	7,673
Total revenue from contracts with customers	**855,425**	1,676,092
Rental income	**5,706**	7,082
Realised (losses)/gains on oil derivative contracts (see note 19)	**(6,059)**	24,756
Other	**1,798**	3,904
Business performance revenue and other operating income	**856,870**	1,711,834
Unrealised (losses)/gains on oil derivative contracts(ii) (see note 19)	**8,778**	(65,375)
Total revenue and other operating income	**865,648**	1,646,459

(i) Includes onward sale of third-party gas purchases not required for injection activities at Magnus
(ii) Unrealised gains and losses on oil derivative contracts are disclosed as fair value remeasurement items in the income statement (see note 4)

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2020 $'000		Year ended 31 December 2019 $'000	
	North Sea	**Malaysia**	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**719,504**	**60,361**	1,405,956	142,221
Revenue from gas and condensate sales	**57,930**	**2,556**	116,714	3,528
Tariff revenue	**15,074**	**–**	7,673	–
Total revenue from contracts with customers	**792,508**	**62,917**	1,530,343	145,749

5. Revenue and expenses continued

(b) Cost of sales

Accounting policy

Production imbalances, movements in under/over-lift and movements in inventory are included in cost of sales. The over-lift liability is recorded at the cost of the production imbalance to represent a provision for production costs attributable to the volumes sold in excess of entitlement. The under-lift asset is recorded at the lower of cost and net realisable value, consistent with IAS 2, to represent a right to additional physical inventory. An under-lift of production from a field is included in current receivables and an over-lift of production from a field is included in current liabilities.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Production costs	**265,529**	441,624
Tariff and transportation expenses	**63,685**	74,782
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	**(572)**	1,707
Change in lifting position	**(31,508)**	96,886
Crude oil inventory movement	**(3,293)**	5,967
Depletion of oil and gas assets(i)	**438,247**	525,145
Other cost of operations(ii)	**53,367**	97,459
Business performance cost of sales	**785,455**	1,243,570
Unrealised (gains)/losses on derivative contracts related to operating costs(iii) (see note 19)	**1,932**	378
Redundancy costs related to the transformation programme	**5,792**	–
PM8/Seligi riser repair provision (see note 23)	**5,902**	–
Total cost of sales	**799,081**	1,243,948

(i) Includes $68.5 million Kraken FPSO right-of-use asset depreciation charge and $10.5 million of vessels within right-of-use assets depreciation charge
(ii) Includes $24.7 million of inventory provisions and also includes purchases of third-party gas not required for injection activities at Magnus which is sold on
(iii) Unrealised gains and losses on derivative contracts are disclosed as fair value remeasurement in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Staff costs (see note 5(f))	**85,813**	90,764
Depreciation(i)	**7,616**	8,207
Other general and administration costs	**21,831**	23,094
Recharge of costs to operations and joint venture partners	**(109,155)**	(114,404)
Total general and administration expenses	**6,105**	7,661

(i) Includes $3.7 million right-of-use assets depreciation charge on buildings

(d) Other income

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Gain on termination of Tanjong Baram risk service contract	**10,209**	–
Other income	**6,095**	3,446
Business performance other income	**16,304**	3,446
Fair value changes in contingent consideration (see note 22)	**138,249**	–
Total other income	**154,553**	3,446

On 3 March 2020, the Group terminated the Tanjong Baram small field risk service contract with Petronas. Following the termination, the Group received three instalments from Petronas for the reimbursement of net outstanding capital expenditure of $51.1 million. The Group received $72.9 million from Petronas in 2020, of which $21.8 million was received on behalf of the non-operating partner and immediately transferred. The amount has been presented net in the statement of cash flows to represent the substance of the transaction. On termination, the Tanjong Baram assets were carried at c.$40 million resulting in the $10.2 million gain (see note 10).

(e) Other expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Net foreign exchange losses	**4,625**	16,427
Change in decommissioning provisions	**83,199**	–
Change in Thistle decommissioning provisions (note 23)	**11,998**	–
Other	**1,811**	5,454
Business performance other expenses	**101,633**	21,881
Loss on derecognition of assets related to the Seligi riser detachment	**956**	–
Fair value changes in contingent consideration (see note 22)	**–**	15,520
Settlement provision (see note 23)	**–**	15,630
Other	**–**	585
Total other expenses	**102,589**	53,616

(f) Staff costs

Accounting policy

Short-term employee benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

The Group's pension obligations consist of defined contribution plans. The Group pays fixed contributions with no further payment obligations once the contributions have been paid. The amount charged to the Group income statement 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.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Wages and salaries	**85,913**	88,951
Social security costs	**9,118**	9,511
Defined contribution pension costs	**6,871**	7,115
Expense of share-based payments (see note 21)	**3,401**	5,886
Other staff costs	**12,781**	12,609
Total employee costs	**118,084**	124,072
Contractor costs	**39,371**	50,975
Total staff costs	**157,455**	175,047
General and administration staff costs (see note 5(c))	**85,813**	90,764
Non-general and administration costs	**71,642**	84,283
Total staff costs	**157,455**	175,047

In 2020, the Group changed its methodology for disclosing staff costs and therefore the 2019 allocation of staff costs has been restated to ensure consistency.

The average number of persons, excluding contractors, employed by the Group during the year was 885, with 383 in the general and administration staff costs and 502 directly attributable to assets (2018: 958 of which 407 in general and administration and 551 directly attributable to assets). Compensation of key management personnel is disclosed in note 26 and in the remuneration report on page 91.

5. Revenue and expenses continued

(g) Auditor's remuneration

Following a comparative tender process held during 2019, Deloitte LLP ('Deloitte') was appointed as auditor replacing Ernst and Young LLP ('EY'). The following amounts for the year ended 31 December 2020 were payable by the Group to Deloitte and for the year ended 31 December 2019 to EY:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**649**	682
The audit of the Company's subsidiaries	**178**	176
Total audit	**827**	858
Audit related assurance services(i)	**180**	136
Total audit and audit related assurance services	**1,007**	994
Tax services	**10**	12
Total auditor's remuneration	**1,017**	1,006

(i) Audit-related assurance services include the review of the Group's interim results and assurance work in respect of the Group's joint venture activities

6. Finance costs/income

Accounting policy

Borrowing costs are recognised as interest payable within finance costs in accordance with the effective interest method.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Finance costs:		
Loan interest payable	**32,791**	67,749
Bond interest payable	**73,476**	62,694
Unwinding of discount on decommissioning provisions (see note 23)	**14,512**	13,410
Unwinding of discount on Thistle decommissioning provisions (see note 23)	**796**	671
Finance charges payable under leases	**50,851**	55,686
Amortisation of finance fees on loans and bonds	**5,417**	5,727
Other financial expenses	**1,975**	2,055
	179,818	207,992
Less: amounts capitalised to the cost of qualifying assets	**–**	(1,396)
Business performance finance expenses	**179,818**	206,596
Finance costs on contingent consideration (see note 22)	**77,259**	57,165
Total finance costs	**257,077**	263,761
Finance income:		
Bank interest receivable	**896**	1,511
Unwinding of discount on financial asset (see note 19(e))	**275**	905
Total finance income	**1,171**	2,416

7. Income tax

(a) Income tax

Accounting policy

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.

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.

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') within the UK 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 allowance

The UK taxation regime provides for a reduction in ring-fence supplementary charge tax where investment in new or existing UK assets qualify for a relief known as investment allowance. Investment allowance must be activated by commercial production from the same field before it can be claimed. The Group has both unactivated and activated investment allowances which could reduce future supplementary charge taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

The major components of income tax (credit)/expense are as follows:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Current UK income tax		
Current income tax charge	**–**	354
Adjustments in respect of current income tax of previous years	**140**	(745)
Current overseas income tax		
Current income tax charge	**2,424**	20,894
Adjustments in respect of current income tax of previous years	**(295)**	(4,102)
Total current income tax	**2,269**	16,401
Deferred UK income tax		
Relating to origination and reversal of temporary differences	**58,184**	(277,198)
Adjustments in respect of changes in tax rates	**1**	–
Adjustments in respect of deferred income tax of previous years	**2,660**	(21,309)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(5,135)**	(953)
Adjustments in respect of deferred income tax of previous years	**1,848**	3,247
Total deferred income tax	**57,558**	(296,213)
Income tax (credit)/expense reported in profit or loss	**59,827**	(279,812)

7. Income tax continued

(b) Reconciliation of total income tax charge

A reconciliation between the income tax charge and the product of accounting profit multiplied by the UK statutory tax rate is as follows:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Profit/(loss) before tax	**(565,975)**	(729,113)
UK statutory tax rate applying to North Sea oil and gas activities of 40% (2019: 40%)	**(226,390)**	(291,645)
Supplementary corporation tax non-deductible expenditure	**17,761**	18,593
Petroleum revenue tax (net of income tax benefit)	**(2,548)**	–
Non-deductible expenditure/income	**(3,449)**	89,746
North Sea tax reliefs	**(106,685)**	(84,273)
Tax in respect of non-ring-fence trade	**6,737**	11,269
Deferred tax asset impairment	**371,061**	–
Deferred tax rate changes	**1**	–
Adjustments in respect of prior years	**4,352**	(22,909)
Overseas tax rate differences	**(1,250)**	(1,064)
Share-based payments	**1,097**	2,013
Other differences	**(860)**	(1,542)
At the effective income tax rate of (11)% (2019: 38%)	**59,827**	(279,812)

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Deferred tax liability				
Accelerated capital allowances	**821,253**	1,057,805	**(236,551)**	(343,152)
	821,253	1,057,805		
Deferred tax asset				
Losses	**(825,588)**	(1,102,534)	**276,945**	110,455
Decommissioning liability	**(310,697)**	(284,057)	**(26,640)**	(16,103)
Other temporary differences	**(182,529)**	(226,333)	**43,804**	(47,413)
	(1,318,814)	(1,612,924)		
Deferred tax expense			**57,558**	(296,213)
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(503,946)**	(576,038)		
Deferred tax liabilities	**6,385**	20,919		
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		

Reconciliation of net deferred tax assets/(liabilities)

	2020 $'000	2019 $'000
At 1 January	**555,119**	258,906
Tax income/(expense) during the period recognised in profit or loss	**(57,558)**	296,213
At 31 December	**497,561**	555,119

(d) Tax losses

The Group's deferred tax assets at 31 December 2020 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. At 31 December 2020, $371.1 million of the Group's ring-fence deferred tax assets have not been recognised as there are currently insufficient future profits forecast to utilise them fully. In accordance with IAS 12 Income Taxes, the Group assesses the recoverability of its deferred tax assets at each period end. Sensitivities have been run on the oil price assumption, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would result in an additional deferred tax asset impairment of $328.9 million and a 10% increase in oil price would result in a reduction in deferred tax asset impairment of $285.4 million.

The Group has unused UK mainstream corporation tax losses of $320.7 million (2019: $297.8million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of the creation of non-ring-fence profits and therefore uncertainty over the recovery of these losses. In addition, the Group has not recognised a deferred tax asset for the adjustment to bond valuations on the adoption of IFRS 9. The benefit of this deduction is taken over ten years with a deduction of $2.2 million being taken in the current period with the remaining benefit of $15.1 million remaining unrecognised.

The Group has unused overseas tax losses in Canada of approximately CAD$13.5 million (2019: CAD$13.5 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 2020, and which arose following the change in control of the Stratic Group in 2010.

The Group has unused Malaysian income tax losses of $14.3 million (2019: $12.2 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. The Finance Act 2009 exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

(e) Changes in legislation

The Finance Act 2020 enacted a change in the mainstream corporation tax rate to 19% with effect from 1 April 2020. As all UK mainstream corporation tax losses are not recognised there is minimal impact in 2020 resulting from this change. In the Budget statement on 3 March 2021, it was announced that the corporation tax rate will increase to 25% from 1 April 2023. This change is expected to have no impact.

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. Diluted earnings per share is adjusted for the effects of Ordinary shares granted under the share-based payment plans, which are held in the Employee Benefit Trust, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Basic and diluted earnings per share are calculated as follows:

	Profit/(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2020 $'000	2019 $'000	**2020 million**	2019 million	**2020 $**	2019 $
Basic	**(625,802)**	(449,301)	**1,655.0**	1,640.1	**(0.378)**	(0.274)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**15.1**	14.7	**–**	–
Diluted(i)	**(625,802)**	(449,301)	**1,670.1**	1,654.8	**(0.378)**	(0.274)
Basic (excluding remeasurements and exceptional items)	**(26,187)**	214,340	**1,655.0**	1,640.1	**(0.016)**	0.131
Diluted (excluding remeasurements and exceptional items)(i)	**(26,187)**	214,340	**1,670.1**	1,654.8	**(0.016)**	0.130

(i) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2020 (2019: none). At 31 December 2020, there are no proposed dividends (2019: none).

10. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment charges.

Cost

Cost comprises the purchase price or cost relating to development, including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells and any other 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.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the other operating income or expense line item in the consolidated income statement when the asset is derecognised.

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.

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.

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 capitalised during the development phase of the project until such time as the assets are substantially ready for their intended use.

Depletion and depreciation

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. Changes in factors which affect unit of production calculations are dealt with prospectively. Depletion of oil and gas assets is taken through cost of sales.

Depreciation on other elements of property, plant and equipment is provided on a straight-line basis, and taken through general and administration expenses, at the following rates:

Office furniture and equipment	Five years
Fixtures and fittings	Ten years
Right-of-use assets*	Lease term

* excludes Kraken FPSO which is depleted using the unit of production method in accordance with the related oil and gas assets

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.

Impairment of tangible and intangible assets (excluding goodwill)
At each balance sheet date, the Group assesses assets or groups of assets, called cash generating units ('CGU's), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. 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 its fair value less costs of disposal and its value in use. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, 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 basis at management's estimate of a market participant WACC. See note 2 'Key estimates used in calculations'. 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 Group income statement.

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 Group income statement.

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Right-of-use assets (note 24) $'000	Total $'000
Cost:				
At 1 January 2019	8,365,591	60,572	832,502	9,258,665
Additions	149,503	3,324	24,587	177,414
Change in decommissioning provision	40,097	–	–	40,097
Change in cost recovery provision	(5,895)	–	–	(5,895)
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	1,064	(1,357)	–	(293)
At 1 January 2020	**8,547,769**	**62,453**	**857,089**	**9,467,311**
Additions	**78,926**	**1,910**	**2,812**	**83,648**
Change in decommissioning provision (see notes 23)	**10,200**	**–**	**–**	**10,200**
Disposals and termination of Tanjong Baram risk service contract(i)	**(84,724)**	**(143)**	**(1,412)**	**(86,279)**
At 31 December 2020	**8,552,171**	**64,220**	**858,489**	**9,474,880**
Accumulated depreciation, depletion and impairment:				
At 1 January 2019	4,724,614	42,378	81,233	4,848,225
Charge for the year	438,242	4,453	90,657	533,352
Impairment charge for the year	637,500	–	–	637,500
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	159	(177)	–	(18)
At 1 January 2020	**5,797,924**	**46,568**	**171,890**	**6,016,382**
Charge for the year	**359,258**	**3,902**	**82,703**	**445,863**
Disposals and termination of Tanjong Baram risk service contract(i)	**(42,958)**	**(113)**	**(706)**	**(43,777)**
Impairment charge for the year	**314,335**	**–**	**108,160**	**422,495**
At 31 December 2020	**6,428,559**	**50,357**	**362,047**	**6,840,963**
Net carrying amount:				
At 31 December 2020	**2,123,612**	**13,863**	**496,442**	**2,633,917**
At 31 December 2019	2,749,845	15,885	685,199	3,450,929
At 1 January 2019	3,640,977	18,194	751,269	4,410,440

(i) For details on the termination of the Tanjong Baram risk service contract see note 5(d)

The net book value at 31 December 2020 includes nil (2019: $70.7 million) of pre-development assets and development assets under construction.

The amount of borrowing costs capitalised during the year ended 31 December 2020 was nil (2019: $1.4 million relating to the Dunlin bypass project).

10. Property, plant and equipment continued

Impairment testing of oil and gas assets

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[(i)]	
	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000	**31 December 2020 $'000**	31 December 2019 $'000
North Sea	**(422,495)**	(637,500)	**1,086,348**	46,462
Malaysia	**–**	–	**–**	–
Net pre-tax impairment reversal/(charge)	**(422,495)**	(637,500)		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 2 for further details of 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

Impairment charges of $314.3 million (2019: $637.5 million) and $108.2 (2019: nil) were recognised in respect of oil and gas assets and right-of-use assets respectively within the North Sea reportable segment. The impairments are attributable primarily to producing assets and principally arose as a result of changes to the Group's oil price assumptions during the year.

The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. As stated in note 2, there is uncertainty due to climate change and international governmental intervention to reduce emissions and the likely impact this will have on gas and oil demand in respect of future prices. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would increase the net pre-tax impairment by approximately $266.0 million, with the additional impairment attributable to the fields in the North Sea.

A sensitivity has also been run on the discount rate assumption, with a 1.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 1.0% increase in discount rate would increase the net impairment by approximately $53.6 million, with the additional impairment attributable to the fields in the North Sea.

The oil price sensitivity analysis above does not, however, represent management's best estimate of any impairments that might be recognised as they do not fully incorporate consequential changes that may arise, such as reductions in costs and changes to business plans, phasing of development, levels of reserves and resources, and production volumes. As the extent of a price reduction increases, the more likely it is that costs would decrease across the industry. The oil price sensitivity analysis therefore does not reflect a linear relationship between price and value that can be extrapolated.

11. Goodwill

Accounting policy

Cost

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 reassesses 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.

Impairment of goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. In accordance with IAS 36 Impairment of Assets, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the CGU to which the goodwill relates should be assessed.

For the purposes of impairment testing, goodwill acquired is allocated to the CGU that is 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 CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount of the CGU containing goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

A summary of goodwill is presented below:

	2020 $'000	2019 $'000
Cost and net carrying amount		
At 1 January	**134,400**	283,950
Impairment	**–**	(149,550)
At 31 December	**134,400**	134,400

The majority of the goodwill, $94.6 million, relates to the 75% acquisition of the Magnus oil field and associated interests. The remaining goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Impairment testing of goodwill
Goodwill, which has been acquired through business combinations, has been allocated to the UK North Sea segment CGU, and this is therefore the lowest level at which goodwill is reviewed. The UK North Sea is a combination of oil and gas assets, as detailed within property, plant and equipment (note 10).

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. See 'Key estimates used in calculations' (note 2). The cash flows have been modelled on a post-tax basis at management's estimate of a market participant WACC. An impairment charge of nil was taken in 2020 (2019: $149.6 million) based on a fair value less costs to dispose valuation of the North Sea CGU, as described above.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would result in a net impairment of $14 million (2019: full impairment of goodwill). A 12.6% reduction in oil price would fully impair goodwill (2019: 5.0%).

12. Intangible oil and gas assets
Accounting policy
Exploration and appraisal assets
Exploration and appraisal have indefinite useful lives and are accounted for using the successful efforts method of accounting. 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 Group income statement. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the Group income statement. 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 Group income statement.

During the year ended 31 December 2020, there was no impairment of historical exploration and appraisal expenditures (2019: $25.4 million).

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 31 December 2018	165,586	(113,783)	51,803
Additions	3,241	–	3,241
Write-off of relinquished licences previously impaired	(583)	583	–
Unsuccessful exploration expenditure written off	–	(150)	(150)
Change in decommissioning provision (see note 23)	(2,218)	–	(2,218)
Impairment charge for the year	–	(25,398)	(25,398)
Reclass within asset class	8,645	(8,645)	–
Reclass from/(to) tangible fixed assets (see note 10)	293	(18)	275
At 31 December 2019	**174,964**	**(147,411)**	**27,553**
Write-off of relinquished licences previously impaired	**(12,645)**	**12,645**	**–**
Other	**(7)**	**–**	**(7)**
At 31 December 2020	**162,312**	**(134,766)**	**27,546**

13. Inventories

Accounting policy

Inventories of consumable well supplies and inventories of hydrocarbons are stated at the lower of cost and NRV, cost being determined on an average cost basis.

	2020 $'000	2019 $'000
Hydrocarbon inventories	**20,509**	17,216
Well supplies	**39,275**	61,428
	59,784	78,644

During 2020, inventories of $21.6 million (2019: $20.6 million) were recognised within cost of sales in the Group income statement.

The inventory valuation at 31 December 2020 is stated net of a provision of $56.7 million (2019: $31.8 million) to write down well supplies to their estimated net realisable value. The net charge to the income statement in the year in respect of well supplies provisions, primarily associated with decommissioned assets, was $24.9 million (2019: $14.6 million).

14. Cash and cash equivalents

	2020 $'000	2019 $'000
Available cash		
Cash at bank	**113,185**	137,365
Short-term deposits	**–**	6,849
Total available cash	**113,185**	144,214
Ring-fenced cash		
Joint venture accounts	**74,447**	32,365
Operational accounts	**33,523**	41,620
Total ring-fenced cash	**107,970**	73,985
Total cash at bank and in hand	**221,155**	218,199
Restricted cash – Cash subject to currency controls or other legal restrictions		
Cash held in escrow	**1,675**	1,611
Cash collateral	**–**	646
Total restricted cash – Cash subject to currency controls or other legal restrictions	**1,675**	2,257
Total cash and cash equivalents	**222,830**	220,456

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. Ring-fenced cash includes joint venture accounts and cash held in operational accounts, as detailed below.

Short-term deposits

At 31 December 2020, nil (2019: $6.8 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

Joint venture accounts

Joint venture accounts include the cash called for the operations of the relevant asset, from both EnQuest and partners, based on equity share.

Operational accounts

Operational accounts include cash balances that are available for the operating, investing and financing activities of the following specific assets. This cash includes:

- $17.4 million Sculptor Capital working capital for use only for the activities of the ring-fenced 15% interest in the Kraken oil field (see note 18);
- Nil Magnus asset working capital for use only for activities of Magnus and maintained for the repayment mechanism with BP for the contingent consideration (see note 22); and
- $16.2 million SVT working capital for use only with the activities of SVT (see note 18).

Restricted cash

Included within the cash balance at 31 December 2020 is restricted cash of $1.7 million (2019: $2.3 million). The restricted cash balance is stated net of a provision of $2.5 million (2019: $2.5 million) which relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources.

15. Financial instruments and fair value measurement

Accounting policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are offset and the net amount is reported in the Group balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them. The Group does not currently hold any financial assets at FVOCI, i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost

Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets

The Group recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. ECLs are based on the difference between the contractual cash flows due to the Group, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Financial liabilities

Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Financial liabilities at amortised cost

Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the EIR method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

15. Financial instruments and fair value measurement continued

Financial instruments at fair value through profit or loss

The Group holds derivative financial instruments classified as held for trading, not designated as effective hedging instruments. The derivative financial instruments include forward currency contracts and commodity contracts, to address the respective risks, see note 27. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments at FVPL are carried in the Group balance sheet at fair value with net changes in fair value recognised in the Group income statement. Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end is recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures. Option premium received or paid for commodity derivatives are recognised in remeasurements.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL. Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group also holds contingent consideration (see note 22) and a listed equity investment (see note 19). The movements of both are recognised within remeasurements in the Group income statement.

Fair value measurement

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

31 December 2020	Notes	**Total $'000**	**Quoted prices in active markets (Level 1) $'000**	**Significant observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**
Financial assets measured at fair value:					
Other financial assets at FVPL					
Quoted equity shares		**7**	**7**	**–**	**–**
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	**2,007**	**–**	**2,007**	**–**
Other financial liabilities measured at FVPL					
Contingent consideration	22	**522,261**	**–**	**–**	**522,261**
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	**454,209**	**–**	**–**	**454,209**
Obligations under leases	24	**647,846**	**–**	**–**	**647,846**
Retail bond	18	**225,943**	**225,943**	**–**	**–**
High yield bond	18	**537,602**	**537,602**	**–**	**–**

31 December 2019	Notes	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Financial assets measured at fair value:					
Derivative financial assets at FVPL					
Oil commodity derivative contracts	19	288	–	288	–
Foreign currency derivative contracts	19	1,932	–	1,932	–
Other financial assets at FVPL					
Quoted equity shares		11	11	–	–
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	11,073	–	11,073	–
Other financial liabilities measured at FVPL					
Contingent consideration	22	657,261	–	–	657,261
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	661,638	–	–	661,638
Obligations under leases	24	716,166	–	–	716,166
Retail bond	18	195,948	195,948	–	–
High yield bond	18	655,462	655,462	–	–

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 (i.e. as prices) or indirectly (i.e. derived from prices) observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (Level 2). Contingent consideration is measured at FVPL using the Level 3 valuation processes disclosed in note 22. There have been no transfers between Level 1 and Level 2 during the period (2019: no transfers).

For the financial liabilities measured at amortised costs but for which fair value disclosures are required, the fair value of the bonds classified as Level 1 was derived from quoted prices for that financial instrument. Both interest-bearing loans and borrowings and obligations under finance leases were calculated using the discounted cash flow method to capture the present value (Level 3).

16. Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	**24,604**	117,149
Joint venture receivables	**53,121**	119,519
Under-lift position	**15,690**	17,651
VAT receivable	**10,307**	6,887
Other receivables	**1,441**	3,374
	105,163	264,580
Prepayments and accrued income	**13,552**	14,922
	118,715	279,502

The carrying value of the Group's trade, joint venture and other receivables as stated above are considered to be a reasonable approximation to their fair value largely due to their short-term maturities. Under-lift is valued at the lower of cost or NRV at the prevailing balance sheet date (note 5(b)).

Trade receivables are non-interest-bearing and are generally on 15 to 30 day terms. Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners. Receivables are reported net of any ECL with no losses recognised as at 31 December 2020 or 2019. The Group's ECL estimates were not significantly impacted by Brexit or COVID-19 during 2020.

17. Trade and other payables

	2020 $'000	2019 $'000
Current		
Trade payables	**41,090**	92,238
Accrued expenses	**179,590**	258,539
Over-lift position	**12,732**	46,201
Joint venture creditors	**16,647**	1,788
Other payables	**5,096**	21,089
	255,155	419,855
Classified as:		
Current	**255,155**	419,855
Non-current	**–**	–
	255,155	419,855

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. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling. Trade payables are normally non-interest-bearing and settled on terms of between 10 and 30 days.

Accrued expenses include accruals for capital and operating expenditure in relation to the oil and gas assets and interest accruals.

18. Loans and borrowings

	2020 $'000	2019 $'000
Borrowings	**452,284**	659,013
Bonds	**1,045,041**	966,231
	1,497,325	1,625,244

(a) Borrowings

The Group's borrowings are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	**377,270**	**–**	**377,270**	475,097	–	475,097
Sculptor Capital facility	**67,701**	**(1,925)**	**65,776**	122,912	(2,625)	120,287
SVT working capital facility	**9,238**	**–**	**9,238**	31,899	–	31,899
Tanjong Baram project financing facility	**–**	**–**	**–**	31,730	–	31,730
Total borrowings	**454,209**	**(1,925)**	**452,284**	661,638	(2,625)	659,013
Due within one year			**414,430**			165,589
Due after more than one year			**37,854**			493,424
Total borrowings			**452,284**			659,013

See liquidity risk – note 27 for the timing of cash outflows relating to loans and borrowings

Credit facility

On 21 November 2016, the Group completed a loan restructuring and 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 of October 2021;
- Amortisation payable from 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 USD LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at USD 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; and
- 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.

At 31 December 2020, the carrying amount of the credit facility on the balance sheet was $377.8 million, comprising the loan principal drawn down of $360.0 million, $17.3 million of interest capitalised to the PIK amount and $0.5 million accrued interest (note 17) (2019: carrying amount $477.4 million, principal drawn down $460.0 million, PIK $15.8 million and accrued interest $1.6 million).

At 31 December 2020, after allowing for letter of credit utilisation of $28.8 million, $46.2 million remained available for drawdown under the credit facility (2019: $6.8 million and $68.2 million, respectively).

Sculptor Capital facility

On 24 September 2018, the Group entered into a $175.0 million financing facility with Sculptor Capital Management Inc. The facility was drawn down in full and is repayable in five years from initial availability of the facility. Interest accrues at 6.3% annual effective rate plus one-month USD LIBOR. The financing is ring-fenced on a 15% interest in the Kraken oil field and will be repaid out of the cash flows associated with the interest over a maximum of five years.

SVT working capital facility

On 1 December 2020, EnQuest NNS Limited extended, for a further three years, the £42.0 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and associated interests. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR.

Tanjong Baram project financing facility

On 25 October 2017, the Group entered into a $34.6 million financing facility in Malaysia with Castleton Commodities Merchant Asia Co. Pte Ltd. In June 2020, EnQuest made an early voluntary repayment of the entire $31.7 million of the Tanjong Baram project finance facility.

Trade Creditor Facility

In April 2020, the Group entered into a $15.0 million facility with a supplier, in relation to the provision of a drilling contract. Any amounts drawn down under the facility, along with associated accrued interest at 4%, would be repayable in two instalments in 2021. No amounts were drawn as at 31 December 2020.

(b) Bonds
The Group's bonds are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
High yield bond	**799,194**	**(2,666)**	**796,528**	746,056	(4,483)	741,573
Retail bond	**249,161**	**(648)**	**248,513**	225,747	(1,089)	224,658
Total bonds due after more than one year	**1,048,355**	**(3,314)**	**1,045,041**	971,803	(5,572)	966,231

High yield bond
In April 2014, the Group issued a $650.0 million high yield bond. 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 is only 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.

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $796.5 million (2019: $741.6 million). This includes bond principal of $799.2 million (2019: $746.1 million) less unamortised fees of $2.7 million (2019: $4.5 million). The high yield bond does not include accrued interest of $11.8 million (2019: $11 million) and liability for the IFRS 9 Financial Instruments loss on modification of $4.6 million (2019: $2.2 million), which are reported within trade and other payables. The fair value of the high yield bond is disclosed in note 15.

Retail bond
In 2013, the Group issued a £155.0 million retail bond. 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 is only 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').

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $248.5 million (2019: $224.7 million). This includes bond principal of $249.2 million (2019: $225.7 million) less unamortised fees of $0.6 million (2019: $1.1 million). The retail yield bond does not include accrued interest of $6.3 million (2019: $6.0 million) and liability for the IFRS 9 Financial Instruments loss on modification of $11.9 million (2019: $10.5 million), which are reported within trade and other payables. The fair value of the retail bond is disclosed in note 15.

19. Other financial assets and financial liabilities
(a) Summary as at year end

	2020		2019	
	Assets $'000	**Liabilities $'000**	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	**–**	**2,007**	288	11,073
Derivative foreign exchange contracts	**–**	**–**	1,932	–
Amortised cost:				
Other receivables	**–**	**–**	6,863	–
Total current	**–**	**2,007**	9,083	11,073
Fair value through profit or loss:				
Quoted equity shares	**7**	**–**	11	–
Total non-current	**7**	**–**	11	–

19. Other financial assets and financial liabilities continued

(b) Income statement impact

The income/(expense) recognised for derivatives are as follows:

Year ended 31 December 2020	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000
Commodity options	**24,659**	**(136)**	**–**	**–**
Commodity swaps	**(36,912)**	**8,941**	**–**	**–**
Commodity futures	**6,194**	**(27)**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**572**	**(1,932)**
	(6,059)	**8,778**	**572**	**(1,932)**

Year ended 31 December 2019	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000
Commodity options	10,517	(55,513)	–	–
Commodity swaps	19,813	(10,021)	–	–
Commodity futures	(4,467)	159	–	–
Commodity collar on prepayment transaction	(1,107)	–	–	–
Foreign exchange contracts	–	–	(2,713)	1,684
Carbon forwards	–	–	1,006	(2,062)
	24,756	(65,375)	(1,707)	(378)

(c) Commodity contracts

The Group uses derivative financial instruments to manage its exposure to the oil price, including put and call options, swap contracts and futures.

For the year ended 31 December 2020, gains totalling $2.7 million (2019: losses of $40.6 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $6.1 million (2019: gains of $24.8 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling $8.8 million (2019: losses of $65.4 million). Of the realised amounts recognised during the year, a gain of $6.2 million (2019: gain of $4.9 million) was realised in Business performance revenue in respect of the premium income received on sale of these options.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was a liability of $2.0 million (2019: liability of $10.8 million).

(d) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, primarily in relation to Sterling. During the year ended 31 December 2020, losses totalling $1.4 million (2019: losses of $1.0 million) were recognised in the income statement. This included realised gains totalling $0.6 million (2019: loss of $2.7 million) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was nil (2019: asset of $1.9 million).

(e) Other receivables

	2020 $'000	2019 $'000
At 1 January	**6,874**	15,506
Change in fair value	**(4)**	(20)
Utilised during the year	**(7,138)**	(9,517)
Unwinding of discount	**275**	905
At 31 December	**7**	6,874
Current	**–**	6,863
Non-current	**7**	11
	7	6,874

Other receivables

Comprised of:	2020 $'000	2019 $'000
BUMI receivable	–	6,863
Other	7	11
Total	**7**	6,874

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 from 2018 onwards. A total of $7.1 million was collected during the period, with the refund now fully settled.

20. Share capital and premium

Accounting policy

Share capital and share premium

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. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

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. During the year the merger reserve was released to retained earnings as the assets which gave rise to its original recognition are now fully written down.

Retained earnings

Retained earnings contain the accumulated profits/(losses) of the Group.

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. EnQuest PLC shares held by the Group in the Employee Benefit Trust are recognised at cost and are deducted from the share-based payments reserve. 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 Group income statement on the purchase, sale, issue or cancellation of equity shares.

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2020	1,695,801,955	118,271	227,149	345,420
At 31 December 2020	**1,695,801,955**	**118,271**	**227,149**	**345,420**

At 31 December 2020, there were 46,492,546 shares held by the Employee Benefit Trust (2018: 43,232,936). 9,562,007 shares were purchased across 2020 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

21. Share-based payment plans

Accounting policy

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 of EnQuest PLC.

The Directors of the Company have approved four share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan, a Performance Share Plan and a Sharesave Plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value of awards is calculated in reference to the scheme rules 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.

The cost of equity-settled transactions is recognised over the vesting period in which the relevant employees become fully entitled to the award. 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 Group income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In valuing the 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. 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 Group income statement.

The share-based payment expense recognised for each scheme was as follows:

	2020 $'000	2019 $'000
Deferred Bonus Share Plan	**95**	303
Restricted Share Plan	**221**	580
Performance Share Plan	**3,277**	3,988
Sharesave Plan	**(240)**	858
Executive Director bonus awards	**48**	159
	3,401	5,888

The following disclosure and tables show the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which been exercised and are exercisable at the end of each year.

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 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:

	2020	2019
Weighted average fair value per share	**31p**	36p

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

	2020 Number	2019 Number
Outstanding at 1 January	**925,510**	2,147,103
Granted during the year	**–**	–
Exercised during the year	**(705,683)**	(1,127,850)
Forfeited during the year	**(58,989)**	(93,743)
Outstanding at 31 December	**160,838**	925,510
Exercisable at 31 December	**–**	–

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 0.3 years (2019: 0.6 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:

	2020	2019
Weighted average fair value per share	**24p**	31p

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

	2020 Number	2019 Number
Outstanding at 1 January	**4,848,299**	12,672,753
Granted during the year	**399,089**	45,303
Exercised during the year	**(2,229,196)**	(7,826,383)
Forfeited during the year	**(68,552)**	(43,374)
Outstanding at 31 December	**2,949,640**	4,848,299
Exercisable at 31 December	**1,821,724**	2,822,934

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 2.1 years (2019: 2.6 years).

Performance Share Plan ('PSP')
PSP vesting is subject to performance conditions. PSP share awards granted before 2020 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; and 10% relates to 2P reserve additions over the three-year performance period. Awards will vest on the third anniversary.

For 2020 the PSP share awards granted during the year have only one performance condition, 100% 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. 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:

	2020	2019
Weighted average fair value per share	**18p**	27p

21. Share-based payment plans continued

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

	2020 Number	2019 Number
Outstanding at 1 January	**69,637,698**	77,898,199
Granted during the year	**52,520,457**	33,000,603
Exercised during the year	**(3,353,253)**	(19,644,786)
Forfeited during the year	**(13,919,026)**	(21,616,318)
Outstanding at 31 December	**104,885,876**	69,637,698
Exercisable at 31 December	**8,248,209**	3,852,953

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 5.8 years (2019: 6.3 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:

	2020	2019
Weighted average fair value per share	**12p**	22p

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

	2020 Number	2019 Number
Outstanding at 1 January	**42,589,522**	35,747,677
Granted during the year	**34,719,941**	39,101,971
Exercised during the year	**(452,545)**	(6,385,608)
Forfeited during the year	**(34,473,264)**	(25,874,518)
Outstanding at 31 December	**42,383,654**	42,589,522
Exercisable at 31 December	**449,912**	2,879,900

The weighted average contractual life for the share options outstanding as at 31 December 2020 was 2.6 years (2019: 2.8 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:

	2020	2019
Weighted average fair value per share	**15p**	28p

The following table shows the movement in the number of share awards held under the Executive Director bonus plan:

	2020 Number	2019 Number
Outstanding at 1 January	**1,963,454**	3,159,786
Granted during the year	**303,862**	138,483
Exercised during the year	**–**	(1,334,815)
Outstanding at 31 December	**2,267,316**	1,963,454
Exercisable at 31 December	**1,824,971**	1,526,678

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 1.3 years (2019: 0.6 years).

22. Contingent consideration

Accounting policy

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

	Magnus 75% $'000	Magnus decommissioning-linked liability $'000	Total $'000
At 31 December 2019	**641,400**	**15,861**	**657,261**
Change in fair value (see note 5(d))	(137,356)	(893)	(138,249)
Unwinding of discount (see note 6)	64,140	1,586	65,726
Interest on vendor loan (see note 6)	11,533	–	11,533
Utilisation	(72,056)	(1,954)	(74,010)
At 31 December 2020	**507,661**	**14,600**	**522,261**
Classified as:			
Current	73,676	201	73,877
Non-current	433,984	14,400	448,384
	507,660	14,601	522,261

75% Magnus acquisition contingent consideration

On 1 December 2018, EnQuest completed the acquisition of the additional 75% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') which was part funded through a vendor loan and profit share arrangement with BP. This acquisition followed on from the acquisition of initial interests completed in December 2017.

The consideration for the acquisition was $300.0 million, consisting of $100.0 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200.0 million deferred consideration financed by BP. The deferred consideration, which is repayable solely out of cash flows which are in excess of operating cash flows from Magnus, is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the deferred consideration. The consideration also included a contingent profit-sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. Together, the deferred consideration and contingent profit-sharing arrangement are known as contingent consideration.

The contingent consideration is a financial liability classified as measured at fair value through profit or loss. The fair value of contingent consideration has been determined by calculating the present value of the future expected cash flows expected to be paid and is considered a level 3 valuation under the fair value hierarchy. Future cash flows are estimated based on inputs including future oil prices, production volumes, and operating costs. The discount rate assumption and other inputs are detailed in note 2. The contingent consideration was fair valued at 31 December 2020, which resulted in a decrease in fair value of $137.4 million (2019: increase $13.5 million), reflecting the change in oil price assumptions. The fair value accounting effect and finance costs of $77.3 million (2019: $55.0 million) on the contingent consideration were recognised through remeasurements and exceptional items in the Group income statement. The contingent profit sharing arrangement cap of $1 billion was not met in 2020 in the present value calculations (2019: cap was met). Within the statement of cash flows the profit share element of the repayment, $41.1 million (2019: $21.6 million) is disclosed separately under investing activities; the repayment of the vendor loan, $20.7 million (2019: $17.9 million) is disclosed under financing activities; and the interest paid on the vendor loan, $10.3 million (2019: $14.2 million) is included within Interest paid under financing activities. At 31 December 2020, the contingent consideration was $507.7 million (31 December 2019: $641.4 million).

Management has considered alternative scenarios to assess the valuation of the contingent consideration including, but not limited to, the key accounting estimate relating to the oil price and the interrelationship with production and the profit share arrangement. As detailed in key accounting estimates, a reduction or increase in the price assumptions of 10% are considered to be reasonably possible changes, resulting in a reduction of $91.7 million or an increase of $91.7 million to the contingent consideration, respectively (2019: reduction of $97.8 million and increase of $54.3 million, respectively). The change in value represents a change in timing of cash flows, with the contingent profit sharing arrangement cap of $1 billion not met in either sensitivity.

22. Contingent consideration continued

The payment of contingent consideration is limited to cash flows generated from Magnus. Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset. By reference to the conditions existing at 31 December 2020, the maturity analysis of the loan is disclosed in Risk management and financial instruments – liquidity risk (note 27).

Magnus decommissioning-linked contingent consideration

As part of the Magnus and associated interests acquisition, BP retained the decommissioning liability in respect of the existing wells and infrastructure and EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2020, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $14.6 million (2019: $15.9 million).

23. Provisions

Accounting policy

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 Group's provision primarily relates to the future decommissioning of production facilities and pipelines.

A decommissioning asset and liability are recognised, within property plant and equipment and provisions respectively, at the present value of the estimated future decommissioning costs. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves, included within depletion in the Group income statement. Any change in the present value of estimated future decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset. The unwinding of the decommissioning liability is included under finance costs in the Group income statement.

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. See 'Key sources of estimation uncertainty' – Decommissioning provision in note 2.

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.

	Decommissioning provision $'000	Thistle decommissioning provision $'000	Other provisions $'000	Total $'000
At 31 December 2019	711,898	39,811	11,250	762,959
Additions during the year	7,462	–	9,137	16,599
Changes in estimates	85,937	11,998	–	97,935
Unwinding of discount	14,512	796	–	15,308
Utilisation	(41,605)	–	(11,250)	(52,855)
Foreign exchange	–	461	–	461
At 31 December 2020	778,204	53,066	9,137	840,407
Classified as:				
Current	68,805	21,012	9,137	98,954
Non-current	709,399	32,054	–	741,453
	778,204	53,066	9,137	840,407

Decommissioning provision

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development of the Group's assets. At 31 December 2020, an estimated $329.2 million is expected to be utilised between one and five years (2019: $155.6 million), $145.1 million within six to ten years (2019: $339.8 million), and the remainder in later periods.

As described in the accounting policy above, the decommissioning provision estimates are highly dependent on future events. Sensitivities have been run on the discount rate assumption (see note 2), with a 0.5% change being considered to be a reasonable possible change, resulting in an approximate reduction and increase of $35.4 million and $38.4 million (2019: $34.7 million and $31.8 million), respectively.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2020 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: $131.6 million).

Thistle decommissioning provision
In 2017, EnQuest had the option to receive $50.0 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 7.5% of BP's share of decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 and the liability recognised within provisions. At 31 December 2020, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron was $53.1 million (2019: $39.8 million). Unwinding of discount of $0.8 million is included within finance income for the year ended 31 December 2020 (2019: $0.9 million).

Other provisions
During 2019, the Group finalised and settled the historical breach of warranty claims with KUFPEC, the Group's field partner in respect of Alma/Galia. The settlement completed all outstanding claims and a provision of $22.5 million was recognised for the payments to be made to KUFPEC. A total of $6.9 million had been provided in 2019, resulting in the remaining $15.6 million being taken to the Group income statement through remeasurements and exceptional items. A total of $11.3 million was paid during 2020 (2019: $11.2 million) fully utilising the provision.

During 2020, a riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform detached resulting in a release of gas and a subsequent fire. At 31 December 2020 the Group has provided $5.9 million with respect to required repairs to remedy the damage caused. The Group expects to complete the repairs during 2021.

Other provisions also include redundancy provision of $1.2 million in relation to the transformation programme undertaken during 2020 and $1.5 million in relation to the payment of partners' share of pipeline oil stock following cessation of production at Heather.

24. Leases
Accounting policy
As a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, or, if that rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate is the rate that the Group would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value. The incremental borrowing rate is determined based on a series of inputs including: the term, the risk-free rate based on government bond rates and a credit risk adjustment based on EnQuest bond yields.

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently recorded at amortised cost, using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustments during the periods presented.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included within 'cost of sales' or 'general and administration expenses' in the Group income statement.

24. Leases continued

For leases within joint ventures, the Group assesses on a lease-by-lease basis the facts and circumstances. This relates mainly to leases of vessels. Where all parties to a joint operation jointly have the right to control the use of the identified asset and all parties have a legal obligation to make lease payments to the lessor, the Group's share of the right-of-use asset and its share of the lease liability will be recognised on the Group balance sheet. This may arise in cases where the lease is signed by all parties to the joint operation or the joint operation partners are named within the lease. However, in cases where EnQuest is the only party with the legal obligation to make lease payments to the lessor, the full lease liability and right-of-use asset will be recognised on the Group balance sheet. This may be the case if, for example, EnQuest, as operator of the joint operation, is the sole signatory to the lease. If the underlying asset is used for the performance of the joint operation agreement, EnQuest will recharge the associated costs in line with joint operating agreement.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head-lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets $'000	Lease liabilities $'000
As at 31 December 2018	–	708,950
Finance lease reclassification	690,742	–
IFRS 16 recognition adjustment	60,527	60,527
Additions in the period	24,587	24,587
Depreciation expense	(90,657)	–
Interest expense	–	55,686
Payments	–	(135,125)
Foreign exchange movements	–	1,541
As at 31 December 2019	**685,199**	**716,166**
Additions in the period (see note 10)	**2,812**	**2,812**
Depreciation expense (see note 10)	**(82,703)**	**–**
Impairment (see note 10)	**(108,160)**	**–**
Disposal	**(706)**	**(726)**
Interest expense	**–**	**50,851**
Payments	**–**	**(123,001)**
Foreign exchange movements	**–**	**1,744**
As at 31 December 2020	**496,442**	**647,846**
Current		**99,439**
Non-current		**548,407**
		647,846

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of six years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	**82,703**	90,657
Interest expense on lease liabilities	**50,851**	55,689
Rent expense – short-term leases	**12,736**	2,646
Rent expense – leases of low-value assets	**43**	28
Total amounts recognised in profit or loss	**146,333**	149,020

Amounts recognised in statement of cash flows

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Total cash outflow for leases	**123,001**	135,125

Leases as lessor
The Group sub-leases part of Annan House, the Aberdeen office. The sub-lease is classified as an operating lease, as all the risks and rewards incidental to the ownership of the right-of-use asset are not all substantially transferred to the lessee. Rental income recognised by the Group during 2020 was $1.7 million (2019: $1.3 million).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2020 $'000	2019 $'000
Less than one year	**2,211**	1,635
One to two years	**2,211**	1,762
Two to three years	**2,211**	1,762
Three to four years	**2,211**	1,762
Four to five years	**1,508**	1,762
More than five years	**8,497**	1,147
Total undiscounted lease payments	**18,849**	9,830

25. Commitments and contingencies

Capital commitments
At 31 December 2020, the Group had capital commitments amounting to nil (2019: $17.9 million).

Other commitments
In the normal course of business, the Group will obtain surety bonds, letters of credit and guarantees. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: 131.6 million) to provide security for its decommissioning obligations. See note 23 for further details.

Contingencies
The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. 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 balance sheet or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

26. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 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 2020 (2019: none).

Office sub-lease

During the year ended 31 December 2020, the Group recognised $0.1 million (2019: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management Limited, a company where 72% of the issued share capital is held by Amjad Bseisu.

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 the Executive Committee.

	2020 $'000	2019 $'000
Short-term employee benefits	**7,576**	7,584
Share-based payments	**107**	1,245
Post-employment pension benefits	**224**	199
	7,907	9,028

27. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short-term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of the 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 2020 and 2019, 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 open at the end of 2020 are disclosed in note 19. As of 31 December 2020, the Group held financial instruments (options and swaps) related to crude oil that covered 1.0 MMbbls of 2021 production. The instruments have an effective an average floor price of around $48.9/bbl in 2021. The Group utilises multiple benchmarks when hedging production to achieve optimal results for the Group. No derivatives were designated in hedging relationships at 31 December 2020.

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

	Pre-tax profit	
	+$10/bbl increase $'000	**-$10/bbl decrease $'000**
31 December 2020	**(8,020)**	**1,365**
31 December 2019	(22,894)	20,500

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency and the retail 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 8% (2019: 6%) of the Group's sales and 86% (2019: 95%) of costs (including operating and capital expenditure and general and administration costs) are denominated in currencies other than the functional currency.

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures. The following tables summarise the Group's financial assets and liabilities exposure to foreign currency.

Year ended 31 December 2020	**GBP $'000**	**MYR $'000**	**Other $'000**	**Total $'000**
Total financial assets	**32,150**	**11,735**	**2,777**	**46,662**
Total financial liabilities	**519,060**	**23,931**	**869**	**543,860**

Year ended 31 December 2019	GBP $'000	MYR $'000	Other $'000	Total $'000
Total financial assets	136,158	28,421	4,195	168,774
Total financial liabilities	637,042	113,901	3,091	754,034

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	
	+$10% rate increase $'000	**-$10% rate decrease $'000**
31 December 2020	**(46,183)**	**46,183**
31 December 2019	(47,158)	47,158

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. 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 companies, commodity traders and shipping companies and at 31 December 2020 there were $2.6 million of trade receivables past due (2019: $2.4 million) and $2.5 million of joint venture receivables past due (2019: $0.1 million) but not impaired. Subsequent to year end, $4.4 million of these outstanding balances have been collected (2019: $2.4 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. The impact of ECL is disclosed in note 16.

Ageing of past due but not impaired receivables	**2020 $'000**	2019 $'000
Less than 30 days	**2,974**	381
30–60 days	**1,335**	60
60–90 days	**164**	–
90–120 days	**271**	8
120+ days	**383**	2,056
	5,127	2,505

At 31 December 2020, the Group had three customers accounting for 77% of outstanding trade receivables (2019: four customers, 84%) and one joint venture partner accounting for 16% of outstanding joint venture receivables (2019: two joint venture partners, 26%).

27. Risk management and financial instruments continued

Liquidity risk

The Group monitors its risk of 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. At 31 December 2020, $61.2 million (2019: $68.2million) was available for drawdown under the Group's credit facilities (see note 18).

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 includes future interest payments.

The payment of contingent consideration is limited to cash flows generated from Magnus (see note 22). Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset and there is no exposure to liquidity risk. By reference to the conditions existing at the reporting period end, the maturity analysis of the loan is disclosed below. All of the Groups liabilities are unsecured.

Year ended 31 December 2020	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	–	**430,289**	**39,778**	–	–	**470,067**
Bonds[(i)]	–	–	–	**1,255,474**	–	**1,255,474**
Contingent considerations	–	**78,219**	**77,055**	**254,319**	**401,259**	**810,852**
Obligations under finance leases (IFRS 16)	–	**133,765**	**130,667**	**337,177**	**217,013**	**818,622**
Trade and other payables	–	**249,111**	**117**	–	–	**249,228**
	–	**891,384**	**247,617**	**1,846,970**	**618,272**	**3,604,243**

Year ended 31 December 2019	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	–	228,991	527,419	4,121	–	760,531
Bonds[(i)]	–	67,545	67,545	1,035,022	–	1,170,112
Contingent considerations	–	114,152	89,607	266,563	621,929	1,092,251
Obligations under finance leases (IFRS 16)	–	152,306	132,294	350,492	281,915	917,007
Trade and other payables	–	326,035	–	–	46,763	372,798
	–	889,029	816,865	1,656,198	950,607	4,312,699

(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 one month before the coupon payment date (see note 18)

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 2020	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	**3,108**	**2,007**	–	–	–	**5,115**
	3,108	**2,007**	–	–	–	**5,115**

Year ended 31 December 2019	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	1,849	6,398	4,387	–	–	12,634
Foreign exchange derivative contracts	–	(1,932)	–	–	–	(1,932)
	1,849	4,466	4,387	–	–	10,702

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to the equity holders of the parent company, 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.

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, 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. This is designed to reduce the risk of adverse movements in exchange rates and market 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. Further information relating to the movement year-on-year is provided within the relevant notes and within the Financial review (pages 26 to 31).

	2020 $'000	2019 $'000
Loans, borrowings and bond[i] (A) (see note 18)	**1,502,564**	1,633,441
Cash and short-term deposits (see note 14)	**(222,830)**	(220,456)
Net debt (B)	**1,279,734**	1,412,985
Equity attributable to EnQuest PLC shareholders (C)	**(207,377)**	559,061
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(768,539)**	(449,301)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**(28,319)**	214,340
Gross gearing ratio (A/C)	**n/a**	2.9
Net gearing ratio (B/C)	**n/a**	2.5
Shareholders' return on investment (D/C)	**n/a**	n/a
Shareholders' return on investment excluding exceptionals (E/C)	**n/a**	38%

(i) Principal amounts drawn, excludes netting off of fees (see note 18)

28. Subsidiaries

At 31 December 2020, 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)]	Exploration, 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[(i)]	Intermediate holding company	England	100%
EnQuest NNS Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Advance Holdings Limited[(i)]	Intermediate holding company	England	100%
EnQuest Advance Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Forward Holdings Limited[(i)]	Intermediate holding company	England	100%
EnQuest Forward Limited[(i)]	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. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Profit/(loss) before tax		**(565,975)**	(729,113)
Depreciation	5(c)	**7,616**	8,207
Depletion	5(b)	**438,247**	525,145
Exploration costs impaired and written off	4	**–**	150
Net impairment charge to oil and gas assets	4	**422,495**	812,448
Write down of inventory		**24,940**	14,588
Write down of asset	4	**–**	415
Change in fair value of investments		**4**	20
Share-based payment charge	5(f)	**3,401**	5,888
Gain on termination of Tanjong Baram risk service contract	5(d)	**(10,209)**	–
Loss on derecognition of assets related to the Seligi riser detachment	5(e)	**956**	–
Change in contingent consideration	22	**(60,991)**	72,685
Change in provisions	23	**119,642**	29,711
Amortisation of option premiums	19	**(6,226)**	(4,936)
Unrealised (gain)/loss on commodity financial instruments	5(a)	**(8,778)**	65,375
Unrealised (gain)/loss on other financial instruments	5(b)	**1,932**	378
Unrealised exchange loss/(gain)		**5,067**	15,587
Net finance expense		**163,339**	190,099
Operating profit before working capital changes		**535,460**	1,006,647
Decrease/(increase) in trade and other receivables		**185,225**	(78,056)
(Increase)/decrease in inventories		**(5,438)**	6,423
(Decrease)/increase in trade and other payables		**(147,417)**	59,604
Cash generated from operations		**567,830**	994,618

Changes in liabilities arising from financing activities

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
At 1 January 2019	(1,049,999)	(990,281)	(769,477)	(2,809,757)
Cash movements:				
Repayments of loans and borrowings	394,025	–	–	394,025
Repayment of lease liabilities	–	–	135,125	135,125
Cash interest paid in year	64,370	67,485	–	131,855
Non-cash movements:				
Additions	–	–	(24,587)	(24,587)
Interest/finance charge payable	(67,749)	(62,694)	(55,686)	(186,129)
Fee amortisation	(811)	(2,591)	–	(3,402)
Foreign exchange adjustments	(1,049)	(6,879)	(1,541)	(9,469)
Other non-cash movements	(69)	(1,023)	–	(1,092)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**
Cash movements:				
Repayments of loans and borrowings	**210,671**	**–**	**–**	**210,671**
Repayment of lease liabilities	**–**	**–**	**123,001**	**123,001**
Cash interest paid in year	**31,056**	**–**	**–**	**31,056**
Non-cash movements:				
Additions	**–**	**–**	**(2,812)**	**(2,812)**
Interest/finance charge payable	**(32,791)**	**(73,476)**	**(50,851)**	**(157,118)**
Fee amortisation	**(849)**	**(2,261)**	**–**	**(3,110)**
Foreign exchange adjustments	**(77)**	**(7,923)**	**(1,744)**	**(9,744)**
Disposal	**–**	**–**	**726**	**726**
Other non-cash movements	**498**	**(49)**	**–**	**449**
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

29. Cash flow information continued

Reconciliation of carrying value

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
Principal	(454,209)	(1,048,355)	(647,846)	(2,150,410)
Unamortised fees	1,925	3,314	–	5,239
Accrued interest (note 17)	(490)	(34,651)	–	(35,141)
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

30. Subsequent events

Bressay transaction

The Group completed the Bressay transaction on 21 January 2021. Under the agreement, EnQuest has assumed operatorship of the licences with a participating interest of 40.81% for an initial consideration of £2.2 million, payable as a carry against 50% of Equinor's net share of costs from the point EnQuest assumed operatorship. EnQuest will also make a contingent payment of $15 million following OGA approval of a Bressay field development plan. The contingent payment increases to $30 million in the event that EnQuest sole risks Equinor in the submission of the field development plan. There are no gross assets or profit before tax associated with the assets.

Golden Eagle area transaction and Group refinancing

The Group signed an agreement with Suncor on 4 February to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields ('the Transaction').

The initial consideration is $325 million (which is subject to working capital and other adjustments), with additional contingent consideration of up to $50 million. The contingent consideration is payable in the second half of 2023, if between July 2021 and June 2023 the Dated Brent average crude price equals or exceeds $55/bbl, upon which $25 million is payable, or if the Dated Brent average crude price equals or exceeds $65/bbl, upon which $50 million is payable. A deposit of c.$3 million (being part of the initial consideration) has been provided in 2021 by EnQuest and will be forfeited in most circumstances if the Transaction does not complete.

EnQuest plans to finance the Transaction through a combination of a new secured debt facility, interim period post-tax cash flows between the economic effective date of 1 January 2021 and completion, and an equity raise (collectively the 'funding arrangements').

It is anticipated the new secured debt facility, in respect of which the Group is currently working closely with its leading lending banks BNP and DNB, will incorporate the refinancing of the existing outstanding senior credit facility. Further, the Group anticipates raising up to $50 million of equity through a placing and open offer, in which shareholders related to Amjad Bseisu are expected to participate in line with their equity holdings. Amjad Bseisu and/or persons related to him are expected to make financing commitments assuring there will be no funding shortfall in respect of this $50 million. These financing commitments constitute a related party transaction and will therefore require independent shareholder approval. J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove) is acting as global coordinator, bookrunner and sponsor to EnQuest in connection with the placing and open offer, as financial adviser and sponsor to EnQuest in connection with the Transaction and as sponsor to EnQuest in connection with the related party transaction.

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 (Registered number: 07140891)

At 31 December 2020

	Notes	2020 $'000	2019 $'000
Fixed assets			
Investments	3	**71,351**	1,140,962
Current assets			
Trade and other receivables			
– due within one year	4	**7,340**	5,649
– due after one year	4	**1,046,013**	1,099,722
Cash at bank and in hand		**140**	8
		1,053,493	1,105,379
Trade and other payables: amounts falling due within one year	6	**(42,204)**	(123,083)
Net current assets		**1,011,289**	982,296
Total assets less current liabilities		**1,082,640**	2,123,258
Trade and other payables: amounts falling due after one year	7	**(1,045,041)**	(966,231)
Net assets		**37,599**	1,157,027
Share capital and reserves			
Share capital and premium	8	**345,420**	345,420
Merger reserve		**–**	661,817
Other reserve		**40,143**	40,143
Share-based payment reserve		**1,016**	(1,085)
Profit and loss account		**(348,980)**	110,732
Shareholders' funds		**37,599**	1,157,027

The attached notes 1 to 11 form part of these Company financial statements.

The Company reported a loss for the financial year ended 31 December 2020 of $1,121.5 million (2019: loss of $239.7 million). There were no other recognised gains or losses in the period (2019: $nil).

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2020

	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 31 December 2018	345,331	905,890	40,143	(6,884)	106,352	1,390,832
Profit/(loss) for the year	–	–	–	–	(239,693)	(239,693)
Total comprehensive income for the year	–	–	–	–	(239,693)	(239,693)
Share-based payment charge	–	–	–	5,888	–	5,888
Shares purchased on behalf of Employee Benefit Trust	89	–	–	(89)	–	–
Impairment of subsidiary undertakings	–	(244,073)	–	–	244,073	–
At 31 December 2019	**345,420**	**661,817**	**40,143**	**(1,085)**	**110,732**	**1,157,027**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**(1,121,529)**	**(1,121,529)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,121,529)**	**(1,121,529)**
Share-based payment charge	**–**	**–**	**–**	**3,401**	**–**	**3,401**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**–**	**(1,300)**	**–**	**(1,300)**
Impairment of subsidiary undertakings	**–**	**(661,817)**	**–**	**–**	**661,817**	**–**
At 31 December 2020	**345,420**	**–**	**40,143**	**1,016**	**(348,980)**	**37,599**

Notes to the Financial Statements

For the year ended 31 December 2020

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 24 March 2021.

EnQuest PLC ('EnQuest' or the 'Company') is a public limited company incorporated and registered in England and is the holding company for the Group of EnQuest subsidiaries (together the 'Group'). The Company address can be found on page 166.

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 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 as set out in the accounting policies below. The functional and presentation currency of the separate financial statements is US 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.

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 note 2 of the Group financial statements, the Directors have a reasonable expectation that the Group and therefore the Company, will be able to continue in operation and meet its commitments as they fall due over the going concern period. See note 2 of the Group financial statements, 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 2020.

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 results. The most important estimates in relation thereto are:

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. The Company's investment in subsidiaries is tested for impairment annually. See Group critical accounting estimates and judgements.

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.

3. Investments

Accounting policy

Investments in subsidiaries are accounted for at cost less any provision for impairment.

(a) Summary

	2020 $'000	2019 $'000
Subsidiary undertakings	**71,344**	1,140,951
Other financial assets at FVPL	**7**	11
Total	**71,351**	1,140,962

(b) Subsidiary undertakings

	Subsidiary undertakings $'000
Cost	
At 1 January 2019	1,379,138
Additions	5,886
At 31 December 2019	1,385,024
Additions	**2,783**
At 31 December 2020	**1,387,807**
Provision for impairment	
At 1 January 2019	–
Impairment charge/(reversal) for the year	244,073
At 31 December 2019	244,073
Impairment charge/(reversal) for the year	**1,072,390**
At 31 December 2020	**1,316,463**
Net book value	
At 31 December 2020	**71,344**
At 31 December 2019	1,140,951
At 31 December 2018	1,379,138

The Company has recognised an impairment of its investment in subsidiary undertakings of $1,072.4 million (2019: impairment of $244.1million). The impairment for the year ended 31 December 2020 is attributable primarily to the change in oil price assumptions during the year.

The Group's recoverable value of its investments is highly sensitive, inter alia, to oil price achieved. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2 of the Group accounts). A 10.0% increase in oil price would reduce the net impairment by approximately $371.2 million.

The oil price sensitivity analysis does not, however, represent management's best estimate of any impairments that might be recognised as they do not fully incorporate consequential changes that may arise, such as reductions in costs and changes to business plans, phasing of development, levels of reserves and resources, and production volumes. As the extent of a price reduction increases, the more likely it is that costs would decrease across the industry. The oil price sensitivity analysis therefore does not reflect a linear relationship between price and value that can be extrapolated.

Details of the Company's subsidiaries at 31 December 2020 are provided in note 28 of the Group financial statements.

(c) Other financial assets at FVPL

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 the United Kingdom and registered in England and Wales.

4. Trade and other receivables

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Company does not currently hold any financial assets at FVOCI, i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost
Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets
The Company recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. ECLs are based on the difference between the contractual cash flows due to the Company, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and are based on their historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company evaluates the concentration of risk with respect to intercompany receivables as low, as its customers are intercompany ventures, and has considered the risk relating to the probability of default on loans that are repayable on demand. The Company has evaluated an expected credit loss of $46.7 million for the year ended 31 December 2020, as required by IFRS 9's expected credit loss model (2019: $0.5 million). Once the company has completed the Golden Eagle acquisition and refinancing in 2021, the ECL, required under the IFRS 9 model, is expected to reduce considerably.

	2020 $'000	2019 $'000
Due within one year		
Amounts due from subsidiaries	**7,290**	5,649
Prepayments	**50**	–
	7,340	5,649
Due after one year		
Amounts due from subsidiaries	**1,046,013**	1,099,722

5. Deferred tax
The Company has unused UK mainstream corporation tax losses of $63.3 million (2019: $56.8 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

6. Trade and other payables: amounts falling due within one year
Accounting policy
Financial liabilities
Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Financial liabilities at amortised cost
Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the effective interest rate method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

	2020 $'000	2019 $'000
Bond interest	**18,105**	16,992
Other interest	**16,569**	12,761
Amounts due to subsidiaries	**7,345**	93,185
Accruals	**185**	145
	42,204	123,083

7. Trade and other payables: amounts falling due after one year

	2020 $'000	2019 $'000
Bonds	**1,045,041**	966,231

At 31 December 2020, bonds comprise a high yield bond with principal of $799.1 million (2019: $746.1 million) and a retail bond with principal of $249.2 million (2019: $225.7 million). The bonds mature in October 2023 and pay a coupon of 7.0% bi-annually. See note 18 of the Group financial statements. The maturity profile of the bonds are disclosed in note 27 of the Group financial statements.

8. 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 2020	1,695,801,955	118,271	227,149	345,420
At 31 December 2020	**1,695,801,955**	**118,271**	**227,149**	**345,420**

The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

At 31 December 2020, there were 46,492,546 shares held by the Employee Benefit Trust (2019: 43,232,936). 9,562,007 shares were issued across 2020 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

9. Reserves

Share capital and share premium

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. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

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. During the year the merger reserve was released to retained earnings as the assets which gave rise to its original recognition are now fully written down.

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 21 of the Group financial statements.

10. 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.

11. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on pages 91 and 92.

Glossary – Non-GAAP measures

The Group uses Alternative Performance Measures ('APMs') when assessing and discussing the Group's financial performance, balance sheet and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain remeasurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, balance sheet and cash flows.

Business performance net profit attributable to EnQuest PLC shareholders	2020 $'000	2019 $'000
Reported net profit/(loss) (A)	**(625,802)**	(449,301)
Adjustments – remeasurements and exceptional items (note 4):		
Unrealised (losses)/gains on oil derivative contracts (note 19)	**8,778**	(65,375)
Unrealised (gains)/losses on foreign exchange derivative contracts (note 19)	**(1,932)**	1,684
Unrealised (gains)/losses on carbon derivative contracts (note 19)	**–**	(2,062)
Net impairment (charge)/reversal to oil and gas assets (note 10, 11 and note 12)	**(422,495)**	(812,448)
Unwind of contingent consideration (note 22)	**(77,259)**	(57,165)
Change in contingent consideration (note 22)	**138,249**	(15,520)
Redundancy provision (note 23)	**(5,792)**	–
PM8/Seligi riser provision (note 23)	**(5,902)**	–
Loss on derecognition of assets related to the Seligi riser detachment (note 5(e))	**(956)**	–
KUFPEC provision	**–**	(15,630)
Other exceptional items	**–**	(585)
Pre-tax remeasurements and exceptional items (B)	**(367,309)**	(967,101)
Tax on remeasurements and exceptional items (C)	**(232,306)**	303,460
Post-tax remeasurements and exceptional items (D = B + C)	**(599,615)**	(663,641)
Business performance net profit attributable to EnQuest PLC shareholders (A – D)	**(26,187)**	214,340

EBITDA	2020 $'000	2019 $'000
Reported profit/(loss) from operations before tax and finance income/(costs)	**(310,069)**	(467,768)
Adjustments:		
Remeasurements and exceptional items (note 4)	**290,050**	909,936
Depletion and depreciation (note 5(b) and note 5(c))	**445,863**	533,352
Inventory revaluation	**24,940**	14,588
Change in provision (note 23)	**95,197**	–
Net foreign exchange (gain)/loss (note 5(d) and note 5(e))	**4,625**	16,427
Business performance EBITDA (E)	**550,606**	1,006,535

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, inventory revaluation, change in provision and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure.

Total cash and available facilities	2020 $'000	2019 $'000
Available cash	**113,185**	144,214
Ring-fenced cash	**107,970**	73,985
Restricted cash	**1,675**	2,257
Total cash and cash equivalents (F) (note 14)	**222,830**	220,456
Available credit facilities	**450,000**	535,000
Credit facility – Drawn down (appendix)	**(360,000)**	(460,000)
Letter of credit (note 18)	**(28,778)**	(6,849)
Available undrawn facility (G)	**61,222**	68,151
Total cash and available facilities (F + G)	**284,052**	288,607

Net debt	2020 $'000	2019 $'000
Borrowings (note 18):		
Credit facility – Drawn down	**360,000**	460,000
Credit facility – PIK	**17,270**	15,097
Sculptor Capital facility	**65,776**	120,287
SVT working capital facility	**9,238**	31,899
Tanjong Baram project financing facility	**–**	31,730
Borrowings (H)	**452,284**	659,013
Bonds (note 18):		
High yield bond	**796,528**	741,573
Retail bond	**248,513**	224,658
Bonds (I)	**1,045,041**	966,231
Non-cash accounting adjustments (note 18):		
Unamortised fees on loans and borrowings	**1,925**	2,625
Unamortised fees on bonds	**3,314**	5,572
Non-cash accounting adjustments (J)	**5,239**	8,197
Debt (H + I + J) (K)	**1,502,564**	1,633,441
Less: Cash and cash equivalents (note 14) (E)	**222,830**	220,456
Net debt/(cash) (K – F) (L)	**1,279,734**	1,412,985

Net debt/EBITDA	2020 $'000	2019 $'000
Net debt (L)	**1,279,734**	1,412,985
Business performance EBITDA (E)	**550,606**	1,006,535
Net debt/EBITDA (L/E)	**2.3**	1.4

Cash capex	2020 $'000	2019 $'000
Reported net cash flows (used in)/from investing activities	**(120,597)**	(257,838)
Adjustments:		
Repayment of Magnus contingent consideration – Profit share	**41,071**	21,581
Net cash received on termination of Tanjong Baram risk service contract	**(51,054)**	–
Interest received	**(796)**	(1,225)
Cash capex	**(131,376)**	(237,482)

Free cash flow	2020 $'000	2019 $'000
Net cash flows from/(used in) operating activities	**522,085**	962,271
Net cash flows from/(used in) investing activities	**(120,597)**	(257,838)
Net cash flows from/(used in) financing activities	**(401,014)**	(729,996)
Adjustments:		
Repayment of loans and borrowings	**210,671**	394,025
Free cash flow	**211,145**	368,462

Revenue sales	2020 $'000	2019 $'000
Revenue from crude oil sales (note 5(a)) (M)	**779,865**	1,548,177
Revenue from gas and condensate sales (note 5(a)) (N)	**60,486**	120,242
Realised (losses)/gains on oil derivative contracts (note 5(a)) (P)	**(6,059)**	24,756

Glossary – Non-GAAP measures continued

Barrels equivalent sales	2020 kboe	2019 kboe
Sales of crude oil (Q)	**18,758**	24,098
Sales of gas and condensate[(i)]	**3,471**	4,082
Total sales (R)	**22,229**	28,180

(i) Includes volumes related to onward sale of third-party gas purchases not required for injection activities at Magnus

Average realised prices	2020 $/Boe	2019 $/Boe
Average realised oil price, excluding hedging (M/Q)	**41.6**	64.2
Average realised oil price, including hedging ((M + P)/Q)	**41.3**	65.3
Average realised blended price, excluding hedging ((M + N)/R)	**37.8**	59.2
Average realised blended price, including hedging ((M + N + P)/R)	**37.5**	60.1

Operating costs	2020 $'000	2019 $'000
Reported cost of sales (note 5(b))	**799,081**	1,243,948
Adjustments:		
Remeasurements and exceptional items (note 5(b))	**(13,626)**	(378)
Depletion of oil and gas assets (note 5(b))	**(438,247)**	(525,145)
(Credit)/charge relating to the Group's lifting position and inventory (note 5(b))	**34,801**	(102,853)
Other cost of sales (note 5(b))	**(53,367)**	(97,459)
Operating costs	**328,642**	518,113
Less realised (gain)/loss on derivative contracts (note 5(b))	**572**	1,707
Operating costs directly attributable to production	**329,214**	516,406
Comprising of:		
Production costs (S) (note 5(b))	**265,529**	441,624
Tariff and transportation expenses (T) (note 5(b))	**63,685**	74,782
Operating costs directly attributable to production	**329,214**	516,406

Barrels equivalent produced	2020 kboe	2020 kboe
Total produced (working interest) (U)	**21,636**	25,041

Unit opex	2020 $/Boe	2019 $/Boe
Production costs (S/U)	**12.3**	17.6
Tariff and transportation expenses (T/U)	**2.9**	3.0
Total unit opex ((S + T)/U)	**15.2**	20.6

Company information

Registered office
5th Floor, Cunard House
15 Regent Street
London
SW1Y 4LR

Corporate brokers
J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

BofA Securities
2 King Edward Street
London
EC1A 1HQ

Auditor
Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Legal adviser
Ashurst LLP
London Fruit & Wool Exchange
1 Duval Square
London
E1 6PW

Corporate and financial public relations
Tulchan Communications LLP
85 Fleet Street
London
EC4Y 1AE

EnQuest PLC shares are traded on the London Stock Exchange and on the NASDAQ OMX Stockholm, in both cases using the code 'ENQ'.

Registrar
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Swedish registrar
Euroclear Sweden AB
Box 191
SE-101 23 Stockholm
Sweden

Financial calendar
12 May 2021: Annual General Meeting
2 September 2021: Half year results (subject to change)

Forward-looking statements:
This announcement may contain certain forward-looking statements with respect to EnQuest's expectations and plans, strategy, management's objectives, future performance, production, reserves, costs, revenues and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this announcement should be construed as a profit forecast. Past share performance cannot be relied upon as a guide to future performance.

Notes

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Visit us at emperor.works

London, England
5th Floor, Cunard House
15 Regent Street
London, SW1Y 4LR
United Kingdom

T +44 (0)20 7925 4900

Aberdeen, Scotland
Annan House
Palmerston Road
Aberdeen, AB11 5QP
United Kingdom

T +44 (0)1224 975 000

Kuala Lumpur, Malaysia
Level 12, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia

T +60 3 2783 1888

Dubai, UAE
1st Floor, Office #102
Emaar Square Building #2
Downtown Dubai
Dubai, UAE

T +971 4 550 7100

More information at
www.enquest.com