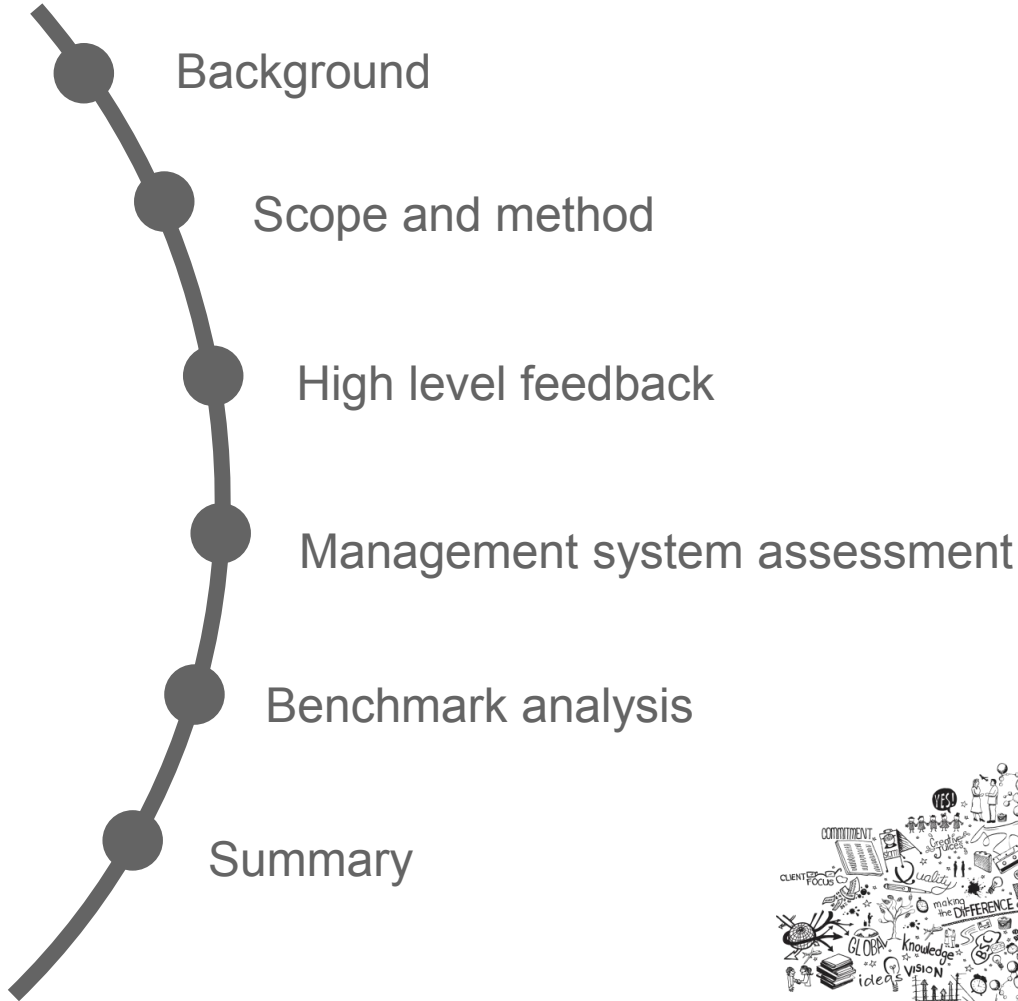




# Lundin Petroleum - CR Management System review

2013-04-22

# Index



# Background

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The purpose of the project has been to identify to what extent Lundin Petroleum's requirements stated in their CR framework are reflected in CR related management systems. Ernst & Young has performed an adapted maturity assessment relevant for this type of management system review. The analysis is foremost based on requirements set in the UNGC, the UN Guiding Principles on Human Rights and other relevant standards and frameworks as these constitutes the base for Lundin Petroleum's CR framework. The focus of the assessment has been to identify potential gaps or roadblocks limiting CR requirements from being fully implemented at Lundin Petroleum answering the following questions:

- ▶ Are CR requirements clearly communicated to drive desired behaviors from “the top” and down
- ▶ Do CR requirements have potential roadblocks from being understood, implemented, owned, monitored and followed-up
- ▶ Is there a need to better integrate or consolidate CR requirements in the existing management system
- ▶ CR framework in comparison/benchmark with industry peers

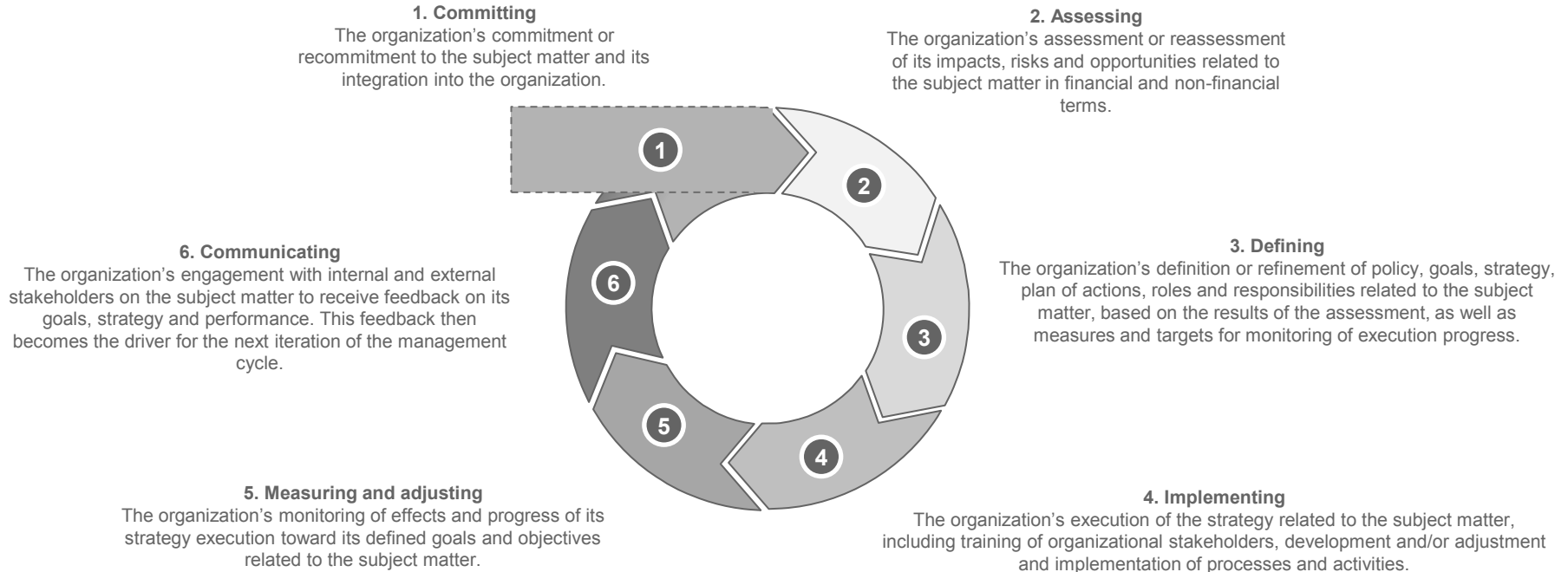
# Scope and method 1(3)

- ▶ The project approach has been based on Ernst & Young’s Maturity model methodology which takes into account UNGC requirements and a Management System model approach.
- ▶ The review has considered the following criteria:
  - ▶ **Commitment:** The organization’s commitment to the subject matter and its integration into the organization
  - ▶ **Assessing:** The organization’s assessment or reassessment of its impacts
  - ▶ **Defining:** The organization’s definition or refinement of policy, goals, strategy, plan of actions, roles and responsibilities
  - ▶ **Implementing:** The organization’s execution of the strategy related to the subject matter, including training and development
  - ▶ **Measuring and adjusting:** The organization’s monitoring of effects and progress of its strategy execution
  - ▶ **Communication:** The organization’s engagement with internal and external stakeholders on the subject matter
- ▶ The project has been divided into the following three main phases:

Phase I: Verify CR Management System Scope	Phase II: Assess and Confirm Key Components	Phase III: Final Reporting of Gaps and Recommendations
<ul style="list-style-type: none"> <li>• Definition of projects goals and objectives and confirmation of scoping and approach.</li> <li>• Design of detailed assessment plan and rating criteria based on Lundin Petroleum’s CR Framework and EY Maturity model</li> <li>• Scheduling of interviews</li> <li>• Gathering of relevant documentation and information</li> </ul>	<ul style="list-style-type: none"> <li>• Review and analysis of all policies and procedures, roles and responsibilities, and existing management system structures i.e ISO 14001, ISO 26000, OHSAS 18001</li> <li>• Execution of interviews with key personnel</li> <li>• Gathering and analysis of evidence of implementation level</li> <li>• Evaluation of Management system components and assessment of maturity level</li> <li>• Identification of potential improvement areas and development of recommended actions</li> </ul>	<ul style="list-style-type: none"> <li>• Presentation and validation of preliminary findings and recommendations                             <ul style="list-style-type: none"> <li>• Maturity level assessment</li> <li>• Identified improvement areas</li> <li>• Recommended actions</li> </ul> </li> <li>• Draft of final report and next steps</li> <li>• (Workshop and Formal presentation of results and final deliverables)</li> </ul>
<ul style="list-style-type: none"> <li>• Defined goals and objectives for the project</li> <li>• Confirmed scope and approach</li> <li>• Documentation and initial information gathered</li> <li>• Interview Schedule</li> </ul>	<ul style="list-style-type: none"> <li>• List of gaps and preliminary recommendations</li> <li>• Preliminary maturity assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Final report and maturity model including recommendations and actions in appendix.</li> </ul>

# Scope and method 2(3)

## - The review is based on a Management system approach and EY Maturity assessment model



**Ernst & Young's Maturity model** methodology provides a rating based on the management system model visible above. The rating ranges from 0-5 and includes the following definitions:

**0: Non-existent or Non-applicable (N/A)**

**1: Initiated**

**2: Basic**

**3: Established**

**4: Advanced**

**5: Leading**

Please note that N/A not should be confused with Non-existent. N/A means that a matter for some reason is not material or suitable to rate. Whereas Non-existent reflects the lack of a matter to rate altogether. N/A is therefore *not* to be consider a weakness of the system.

# High level feedback and suggestions to close weaknesses in the management systems

## GENERAL SYSTEM STRENGTHS

### ► Commitment

Generally high commitment of CR related issues in the organization. Management shows awareness of the importance of CR, both from a risk- and value driven perspective.

### ► Assessment

Assessments are performed in Due Diligence processes and risk-analyses covering relevant aspects of the CR framework, focus on HSE.

### ► Definition

Quantifiable and tangible goals and strategies are clearly defined for the focus areas (HSE).

### ► Implementation

Implementation of CR is conducted on several levels and different forums. For instance during induction and other training. Focus is on HSE.

### ► Measuring and adjusting

CR/HSE audits are performed and documented on a regular basis. Audits are performed by internal specialist and third party auditing firms.

### ► Communication

Internal communication regarding CR related issues is performed on a regular basis. Stakeholder communication is performed with local stakeholders where Lundin Petroleum is present.

## GENERAL SYSTEM WEAKNESSES

### ► Commitment

Commitment of CR related issues in the organization is high on Management and established on Board level.

### ► Assessment

Due Diligence processes and risk-analyses do not cover all relevant aspects of the CR Framework on a regular basis.

### ► Definition

Quantifiable and tangible goals and strategies can be further developed to cover all material aspects of the CR framework.

### ► Implementation

HSE is in the focus for implementation which is the most material aspects, however other relevant aspects could have higher focus.

### ► Measuring and adjusting

Monitoring through KPIs can be further developed to cover relevant other topics than HSE.

### ► Communication

External communication regarding CR related issues can be further improved.

## IMPROVEMENT SUGGESTIONS

### ► Commitment

Evaluate whether commitment at the board level could be further strengthened through regular training on CR related issues.

### ► Assessment

Due Diligence processes and risk-analyses could be further extended to cover all aspects of the CR framework. The risk-assessment model could be further developed to incorporate all relevant aspects of the CR framework and could be more clearly linked to fulfillment of CR goals.

### ► Definition

Establish clear and measurable goals related to different subject matters in the CR framework (other than HSE related subjects) to enable measurement of performance.

### ► Implementation

Consider developing and implementing clear action plans in line with established goals for all relevant areas (other than HSE).

### ► Measuring and adjusting

Consider developing KPIs and clear targets relating to established goals for areas other than HSE.

### ► Communication

Consider publishing a GRI report based on a structured stakeholder dialogue and materiality assessment. Evaluate whether a Communication Plan related to CR issues should be developed for communication to external key stakeholder groups.

# Management system maturity assessment 1(2)

Topic	Management system component	Current state						Suggestions for improvement for Leading and Established level
		N/A	Initiated	Basic	Established	Advanced	Leading	
Human rights	Commitment				X			<p>For established level: Establish formal and measurable goals based on Risk-assessments. Consider introducing KPI's relating to the subject, monitor and follow up at least annually. Engage in Stakeholder dialogues and communicate goals, strategy and performance publicly.</p> <p>For leading level: Establish clear and measurable goals based on Risk-assessments and Stakeholder input. Introduce KPI's relating to the subject, monitor and follow up at least annually (there are several GRI Human Rights KPIs available). Engage in contractor and sub-contractor and/or partner Code of Conduct audits. Engage in Stakeholder dialogues and establish a communication strategy which deals with communication of goals, strategy and performance in a structured manner (e.g. a publicly available GRI report and in investor relations presentations).</p>
	Assessment					X		
	Definition			X				
	Implementation				X			
	Measuring and adjusting				X			
	Communication				X			
Forced and compulsory labour	Commitment				X			<p>For established level: Engage in Stakeholder activities and create a communication strategy where the issue is addressed publicly, especially considering the "indirect use of child or forced labour". Explain the level of education, training, certificates etc that is required to enter Lundin Petroleum's operations. Explain explicitly and transparently why "Forced and compulsory labour" is not material for Lundin Petroleum.</p> <p>For leading: Report on "Forced and compulsory labour" in a GRI sustainability report. Use the materiality analysis as a tool to express your sustainability focus.</p> <p>Please note that N/A not should be confused with Non-existent.</p>
	Assessment	X						
	Definition	X						
	Implementation	X						
	Measuring and adjusting	X						
	Communication				X			
Child labour	Commitment					X		<p>For established level: Engage in Stakeholder activities and create a communication strategy where the issue is addressed publicly, especially considering the "indirect use of child or forced labour". Explain the level of education, training, certificates etc that is required to enter Lundin Petroleum's operations. Explain explicitly and transparently why "Forced and compulsory labour" is not material for Lundin Petroleum.</p> <p>For leading: Report on "Child labour" in a GRI sustainability report. Use the materiality analysis as a tool to express your sustainability focus.</p> <p>Please note that N/A not should be confused with Non-existent.</p>
	Assessment	X						
	Definition	X						
	Implementation	X						
	Measuring and adjusting	X						
	Communication				X			
Freedom of association	Commitment					X		<p>For established level: Establish clear and measurable goals based on Risk-assessments. Consider introducing KPI's relating to the subject, monitor and follow up at least annually. Engage in Stakeholder dialogues and communicate goals, strategy and performance publicly.</p> <p>For leading level: Establish clear and measurable goals based on Risk-assessments and Stakeholder input. Introduce KPI's relating to the subject, monitor and follow up at least annually. Engage in contractor, sub-contractor and/or partner Code of Conduct audits. Engage in Stakeholder dialogues and establish a communication strategy which deals with communication of goals, strategy and performance in a structured manner (e.g. a publicly available GRI report and investor relations presentations).</p>
	Assessment			X				
	Definition			X				
	Implementation				X			
	Measuring and adjusting				X			
	Communication				X			
Discrimination	Commitment				X			<p>For established level: Establish clear and measurable goals based on Risk-assessments. Consider introducing KPI's relating to the subject, monitor and follow up at least annually. Engage in Stakeholder dialogues and communicate goals, strategy and performance publicly.</p> <p>For leading level: Establish clear and measurable goals based on Risk-assessments and Stakeholder input. Introduce KPI's relating to the subject, monitor and follow up at least annually. Engage in supply contractor, sub-contractor and/or partner Code of Conduct audits. Engage in Stakeholder dialogues and establish a communication strategy which deals with communication of goals, strategy and performance in a structured manner (e.g. a publicly available GRI report and investor relations presentations). If creating a GRI report express and report on your materiality analysis explicitly as it will show that "discrimination" is not main focus.</p>
	Assessment				X			
	Definition			X				
	Implementation				X			
	Measuring and adjusting				X			
	Communication				X			
Environmental responsibility	Commitment						X	<p>For leading level: Create a communication strategy and communicate performance publicly e.g. in a GRI report and to investors on a regular basis. If creating a GRI report make sure to use the materiality analysis to clearly express that environment is a focus area for Lundin Petroleum. There are many relevant GRI KPIs regarding environment to choose between.</p>
	Assessment						X	
	Definition						X	
	Implementation						X	
	Measuring and adjusting						X	
	Communication				X			

# Management system maturity assessment 1(2)

Topic	Management system component	Current state						Suggestions for improvement for Leading and Established level
		N/A	Initiated	Basic	Established	Advanced	Leading	
Environmental friendly tech.	Commitment					X		For leading level: Engage with stakeholders and actively promote environmental friendly technologies. Create a communication strategy and communicate performance publicly e.g. in a GRI report and to investors on a regular basis. If creating a GRI report make sure to use the materiality analysis to clearly express that environment is a focus area for Lundin Petroleum. There are many relevant GRI KPIs regarding environment to choose from.
	Assessment					X		
	Definition					X		
	Implementation					X		
	Measuring and adjusting					X		
	Communication				X			
Anti-corruption	Commitment						X	For established level: Establish clear and measurable goals based on Risk-assessments. Consider introducing KPI's relating to the subject, monitor and follow up at least annually. Engage in Stakeholder dialogues and communicate goals, strategy and performance publicly. Recommendations are directed towards Lundin Petroleum.  For leading level: Establish clear and measurable goals based on Risk-assessments and Stakeholder input. Introduce KPI's relating to the subject, monitor and follow up at least annually. Engage in Code of Conduct audits with contractors and/or partners. Engage in Stakeholder dialogues and establish a communication strategy which deals with communication of goals, strategy and performance in a structured manner (e.g. a publically available GRI report and investor relations presentations).
	Assessment				X			
	Definition				X			
	Implementation				X			
	Measuring and adjusting				X			
	Communication				X			
Safety	Commitment						X	For leading level: Create a communication strategy and communicate performance publicly e.g. in a GRI report and to investors on a regular basis. Engage with industry and with government to develop industry standards for impact metrics. If creating a GRI report make sure to use the materiality analysis effectively so that it clearly expresses that safety is your main focus area within sustainability.
	Assessment						X	
	Definition						X	
	Implementation						X	
	Measuring and adjusting						X	
	Communication					X		
Local communities, development	Commitment				X			For established level: When operations are on-shore engage in planned and structured stakeholder activities with local communities. Document stakeholder activities and create a communication strategy where the issue is addressed publicly. However, explain and communicate that going forward Lundin Petroleum will pursue its operations off-shore. Establish clear goals that can be measured and follow up on goals on a regular basis, report goals and performance publicly, in the annual COP for example.  For leading: See above, and if entering regions and countries with high sustainability risks communicate how engagements with local communities and development is planned and then communicate results. Encourage partners, contractors and sub-contractors to engage in local communities and development. If creating a GRI report describe your initiatives, goals and performance. There are relevant GRI KPIs available.
	Assessment				X			
	Definition			X				
	Implementation				X			
	Measuring and adjusting				X			
	Communication				X			
Host countries	Commitment					X		For established level: Engage in planned and structured stakeholder activities with host countries. Document stakeholder activities and create a communication strategy where the issue is addressed publicly. Make sure that measuring and monitoring covers compliance with legal, regulatory (when applicable) and contractual obligations/requirements. Explain and communicate that going forward Lundin Petroleum will pursue its operations off-shore.  For leading: See above, and if entering regions and countries with high sustainability risks communicate how engagements with host countries are planned and then communicate results. If creating a GRI report there are relevant KPIs describing for instance the amount of tax that is paid to a host country.
	Assessment					X		
	Definition				X			
	Implementation					X		
	Measuring and adjusting				X			
	Communication				X			
Conflict affected areas	Commitment					X		For established level: Engage in Stakeholder activities and create a communication strategy where the issue is addressed publicly. Explain that there has been a management decision not to enter conflict affected areas. Explain and communicate that going forward Lundin Petroleum will pursue its operations off-shore to relevant stakeholders such as investors.  For leading: See above. If creating a GRI report make sure to use the materiality analysis effectively to express that a high focus on "conflict affected areas" is not material since Lundin Petroleum does not enter any conflict affected areas going forward.  Please note that N/A not should be confused with Non-existent.
	Assessment	X						
	Definition	X						
	Implementation	X						
	Measuring and adjusting	X						
	Communication				X			



# Comparison/benchmark analysis with industry peers

## - Lundin Petroleum, Tullow oil, DNO, Premier oil and Heritage oil

Company	Lundin Petroleum	Tullow oil	DNO	Premier oil	Heritage oil
Sustainability report (SR)		x		x	x
GRI report/ level		B		B	C
External verification of SR		By Deloitte		By Maplecroft	Self-declared
Sustainability content in Annual Report	x	x	x	x	x
CoC	x	x	x	x	x
CoC compliance monitoring	x	x	x	x	
Formal CR-responsible person	x	x		x	
CR competence on exec mgt / board of directors	x	x	x	x	
Whistleblower system	x	x		x	
Contractor CoC	The same as company CoC	The same as company CoC	The same as company CoC	The same as company CoC	
Contractor CoC Audits	x	x		Audits on HSE	
CoC Contractor screening program	x	x			
Third party CoC/Safety Contractor Audits	x	x		x	
Sustainability risk analysis	x	x	x	x	
Stakeholder engagement performed	x	x	x	x	x
CR-policy	Content in the CoC but no policy	Content in the CoC but no policy	x		x
Environmental policy	x	x	x	x	x
Anticorruption policy	x	Code of business conduct	x	Content in CoC	x
Diversity policy	Content in the CoC but no policy	Content in the Harrassment policy			
Safety policy	x	x	x	x	x
Human rights policy	x	x		x	x
ISO 14001	Not certified, but HSE management system is based on ISO14001	x		x	
ISO26000	x				
UNGC	x			x	
OECD					
OSHA	Not certified, but HSE management system is based on OSHAS 18001	x		x	
CDP	x	x	x	x	x

# Summary of CR Management system review

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- ▶ Project scope:
  - ▶ EY has performed a CR Management system review of Lundin Petroleum's CR Framework. The analysis has foremost been based on recognized international initiatives and standards such as the UNGC, the UNGP, the OECD Guidelines, the ISO 26000 and EYs Maturity Assessment Model.
  
- ▶ Main Findings:
  - ▶ Lundin Petroleum has *Leading* management systems relating to their material areas – Health, Safety and Environment
  - ▶ For other CR areas included in our assessment our opinion is that the maturity level of Lundin Petroleum's Management system is on level *Established to Advanced*.
  - ▶ For the area freedom of association our opinion is that the maturity level is on level *Basic*.
  
- ▶ Main Recommendations:
  - ▶ Continue ongoing implementation processes relating to CR
  - ▶ Strengthen Management System in areas other than HSE
  - ▶ Establish a robust CR Communication plan



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