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Introduction to ESG – CEEC 5th Virtual Meeting

23rd February 2022

What is ESG?



- **Environmental, Social, and Governance** metrics
- Its everything about **risk management** as it is 'do gooding'
- If investors and directors ignore 'externalities'
 - Emissions footprint
 - Supply chain
 - Health & safety
- It has a habit of coming back to bite them...
- In the last year the ESG sector has exploded
- Change in the investor landscape, capital is flowing into **Responsible, Sustainable, Impact** investments





Environmental

- Carbon emissions
- Carbon intensity
- Methane intensity
- Flaring
- Climate change vulnerability
- Water usage
- Waste management
- Clean / low-carbon energy



Social

- Health and safety
- Equality
- Diversity and inclusion
- Labour management
- Human capital development
- Supply chain standards
- Impact on local community



Governance

- Risk management
- Corporate governance
- Transparency
- Ethical standards
- Anti-bribery and corruption



ESG Reports, Frameworks & Disclosures



- Purpose of frameworks is to guide reporting standards, to make comparison easier and to streamline non-financial reporting
- Frameworks form the basis of disclosures and risk management. They help guide companies
- **Output:** ESG Report, disclosure statements, surveys



Frameworks Compared



Global Reporting Initiative

Purpose: Help organisation report on economic, environmental & societal impacts considering a wide range of interests.

Audience: Broad set of stakeholders

Where to report: ESG / Corporate sustainability report.

Information to report:

- **General disclosures:** Profile, strategy, ethics, stakeholder engagement, governance, and reporting process.
- **Environment:** Energy, water, materials, emissions, biodiversity, compliance and supplier environmental assessments.
- **Economic:** Performance, anti-corruption, indirect economic impacts, procurement practices.
- **Social:** Employment relations, occupational health, training and education, diversity,

Areas of focus: Environmental, Social, Governance

Level of flexibility: Little flexibility, mainly prescriptive

Sector focus: Specific including oil and gas.



Climate Disclosure Project

Capture environmental performance data related to GHG emissions, water, forest and supply chain.

Investors, buyers, and other stakeholders

CDP's online reporting platform

- **Climate change:** Risks and low-carbon opportunities.
- **Forest:** How organisations produce, source, and use major commodities associated with detrimental impact on natural resources.
- **Water security:** Companies management, governance, use, and stewardship of water resources.
- **Supply chain:** management of climate change, forest, and water security.

Environmental, Governance

Prescriptive

Specific including oil and gas.



Sustainability Accounting Standards Board

Specific standards that assist in disclosing financially material, decision-useful sustainability information to investors.

Investors

ESG / Corporate sustainability report.

- **Environment:** Corporate impacts on the environment.
- **Social capital:** Human rights, protection of vulnerable groups, local economic development, affordability, responsible marketing and customer privacy.
- **Business model and innovation:** Impact of sustainability issues on innovation and business models and the integration of these values in the company's value-creation process.

Environmental, Social, Governance

Prescriptive

Specific including oil and gas.



Task Force on Climate Related Financial Disclosures

Encourage firms to align with climate-related risk disclosures with investors needs.

Investors, lenders, insurers, government

ESG / Annual financial report.

- **Governance:** Governance around climate-related risks and opportunities.
- **Strategy:** The actual & potential impacts of climate-related risks & opportunities to the organisations business, strategy, and financial planning where such information is material.
- **Risk Management:** How the company identifies, assesses and manages climate related risks.
- **Metrics and targets:** Used to assess climate related risks & opportunities where material.

Environmental, Governance

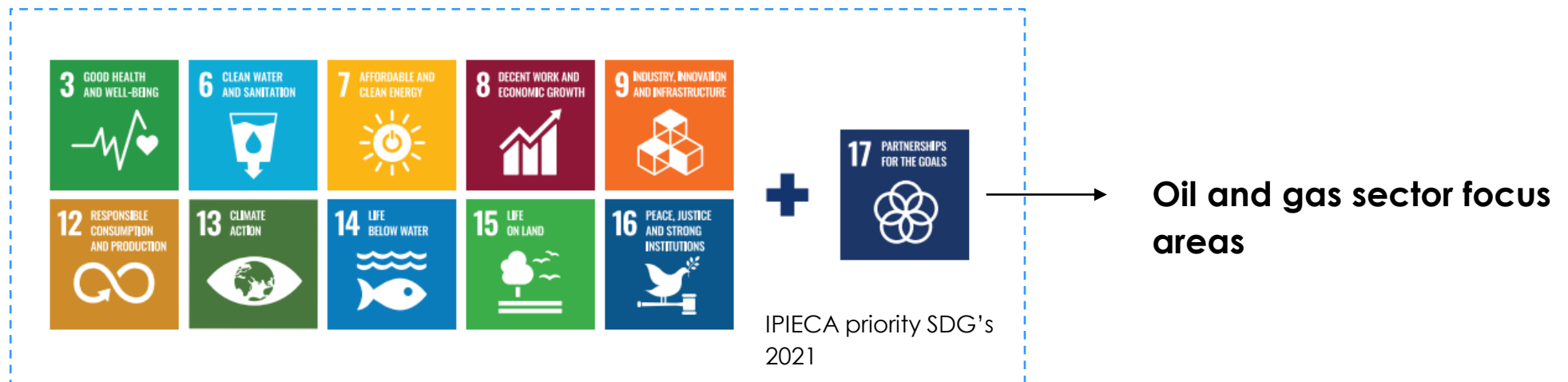
Flexible

Agnostic + including 'energy' specific guidance.

Sustainable Development Goals (SDG's)



- The Sustainable Development Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". Creating a guiding framework for sustainable, ethical and responsible development throughout the world
- Help guide business activities to help contribute towards the goals...
- Goal 7 Affordable and Clean Energy = having a gas weighted portfolio



Materiality Assessments



A material issue is any topic that – in the view of management or stakeholders – affects a company’s performance significantly and informs external opinion. Allows you to define what is material to you, and shape what you report on

		Important to Client (example)		
Materiality	Low	Medium	High	
Important to Stakeholders	High	N/A	SDG 9 / GRI 204 Procurement Practices SDG 8 / GRI 201 Economic Performance SDG 7 / GRI 203 Indirect Economic Impacts SDG 3 / GRI 403 Occupational Health and Safety GRI 405 Diversity and Equal Opportunity GRI 205 Anti-Corruption GRI 305 Emissions	
	Medium	GRI 411 Rights of Indigenous People	GRI 303 Water GRI 410 Security Practices GRI 412 Human Rights Assessments GRI 414 Supplier Social Assessment	SDG 3 / GRI 401 Employment GRI 306 Effluents and Waste GRI 404 Training and Education GRI 415 Local Communities
	Low	GRI 418 Customer Privacy		N/A

Frameworks in practice...



OPERATIONS SUSTAINABILITY COMPANY NEWSROOM CAREERS INVE

Home / Sustainability / Approach to Reporting / Boundaries for Material Issues and GRI Standards Issue Map

Boundaries for Material Issues and GRI Standards Issue Map

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The eight issues listed in the table below are those that emerged as top issues in our 2019–2020 materiality assessment, mapped to the GRI Standards reporting criteria. These material issues have not only informed our forward looking environment, health, safety and social responsibility (EHS & SR) strategy but have helped to define the boundaries of our 2020 Sustainability Report. While these eight topics will be the focus of our strategic sustainability actions through 2025, many other topics are relevant to our stakeholders and our company and will continue to be addressed in our business processes and external reporting.

The table below provides a cross reference with the relevant GRI categories for each issue and identifies the boundary for each issue in our 2020 Sustainability Report. Each issue is considered to apply enterprisewide to assets operated by Hess Corporation and our subsidiaries unless otherwise noted.

HESS' MATERIAL ISSUES	EQUIVALENT GRI TOPIC(S)	REPORTING BOUNDARY
Climate related risk and GHG emissions	Emissions	Operated assets and equity share, indirect emissions, suppliers, partners, products
	Energy	Operated assets
Community and stakeholder engagement	Local communities	Enterprise
	Public policy	Enterprise, partners, suppliers
Diversity, equity and inclusion	Diversity and equal opportunity	Workforce (employees, contractors)
	Employment	
	Nondiscrimination	
Emergency preparedness and response	Training and education	Suppliers
	Procurement practices	
	Occupational health and safety	
Occupational health and safety	Occupational health and safety	Workforce (employees, contractors)
Process safety and release prevention	Effluents and waste	Operated assets
	Occupational health and safety	Workforce (employees, contractors)
Supply chain and contractor management	Procurement practices	Enterprise, suppliers
	Supplier environmental assessment	
	Supplier social assessment	
	Occupational health and safety	
Water management	Effluents and waste	Operated assets
	Water and effluents	



📖 See page 28 for more information on our operating performance.

2P reserves and 2C resources (mmboe)

Our 2P reserves is the best estimate of proved plus probable reserves. 2C resources is the best estimate of contingent resources and includes projects within the development pending, on hold and unclassified categories. See page 126 for an explanation of the inherent uncertainties surrounding 2C resources reporting.

2020	601	452	1,053
2019	633	302	935
2018	638	244	882

■ 2P reserves.
□ 2C resources.

Over a three-year period, which reflects our current project cycles, our reserves replacement ratio was 128%. We also have significant contingent resources and continue to mature these opportunities for future development. 2P reserves includes 13 mmboe acquired as part of the Wintershall Dea transaction announced on 19 February 2021.

Reserves to production ratio (years)

This includes our 2P reserves to production ratio.

2020	12
2019	12
2018	11

We maintained a reserves to production life of 12 years in 2020.

📖 See page 12 for more information on our ESG performance.

Carbon intensity (kg CO₂/boe)

This includes Scope 1 and 2 emissions from our managed operations. This includes Germany, the Netherlands, Norway and the UK.

2020	6.3
2019	5.8
2018	6.0

● IOGP industry average was 17 kg CO₂/boe.

In 2020, our carbon intensity was slightly lower than expected due to the deferral of a compression project at one of our sites. We remain on track to meet our carbon intensity target of 6 kg CO₂/boe by 2030.

Methane intensity (%)

This refers to methane emissions as a percentage of gas exported from our activities, indirect impact (supply chain spend and employment) and induced impact (wage consumption in the wider economy) to the economies of Norway, the UK, the Netherlands and Germany.

2020	0.01
2019	0.02
2018	0.01

● OGCI industry average was 0.23%.

We continue to have one of the lowest intensities in the sector and to maintain our focus have set a target of net zero methane emissions by 2030. The decrease in 2020 was due primarily to methodology changes in Germany, which has improved the accuracy of our reporting.

Economic impact (\$bn)

This includes our direct impact (employment and GDP generated from our activities), indirect impact (supply chain spend and employment) and induced impact (wage consumption in the wider economy) to the economies of Norway, the UK, the Netherlands and Germany.

2020	2.1
2019	2.8
2018	2.6

Our total economic impact was slightly lower in 2020 than previous years, given the deferral of some capital programmes.

📖 See page 46 for more information on our financial performance.

Capex (\$m)

This includes development capex, including equity-accounted entities.

2020	741
2019	887
2018	517

We reduced our investment in development capex in 2020 as we responded to the challenges of COVID-19 and revised our project schedules.

EBITDAX (\$m)

This comprises net income for the period before income tax expense, financial expenses, financial income, impairment losses, other operating gains and losses, exploration expense and depreciation and amortisation. EBITDAX, as defined by the RBL, excludes our share of net income from Touat prior to 2020.

2020	940
2019	1,600
2018	1,883

Despite materially lower commodity prices, EBITDAX was resilient reflecting our diversified production, realised hedging gains and lower operating costs.

Net debt to EBITDAX (x)

This includes net debt (excluding Subordinated Neptune Energy Group Limited Loan) to EBITDAX, as defined by the reserve based lending (RBL) facility and shareholders agreement.

2020	1.94
2019	0.93
2018	0.62

Our leverage ratio increased reflecting repayment of the Touat Vendor Loan and lower EBITDAX. EBITDAX declined due to lower average commodity prices in 2020.

How do you develop a rating?

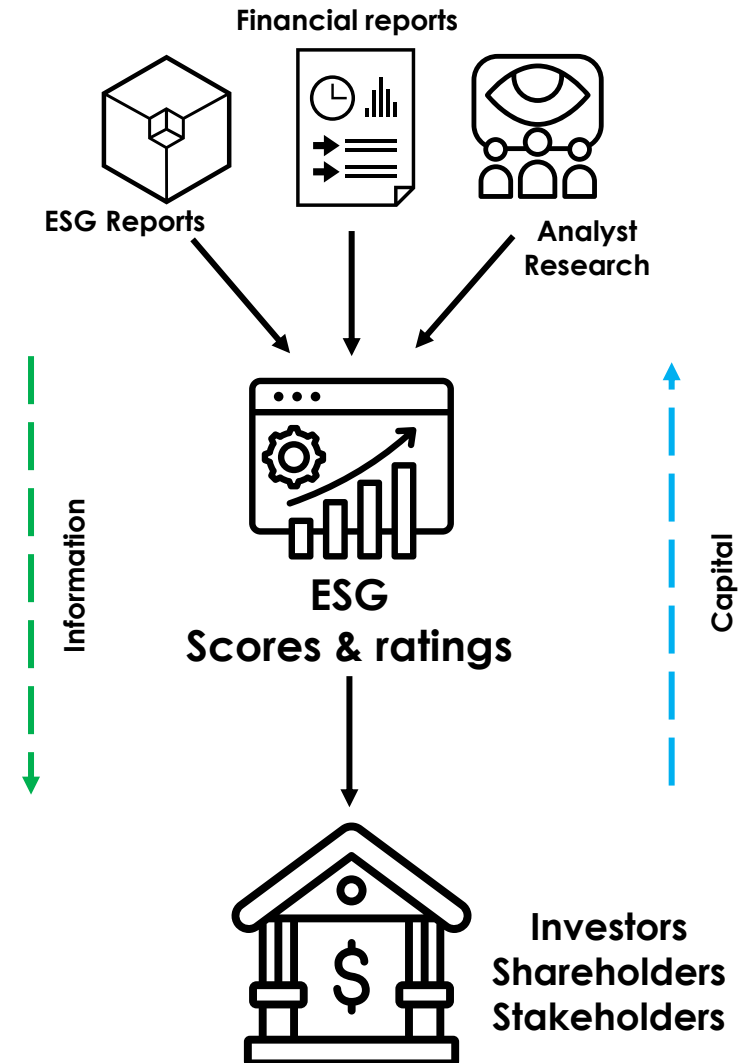
- ESG reports guided by frameworks, disclosures, and mandatory financial reports

Who is assessing your ESG rating?

- Through the development of scores and measures of 'ESG' products – rating agencies & disclosure bodies

Who does your score impact?

- Asset managers, asset owners, banks, corporates, insurance companies, wealth managers, stakeholders, shareholders, and the public



Rating Methodologies

MORNINGSTAR®

SUSTAINALYTICS

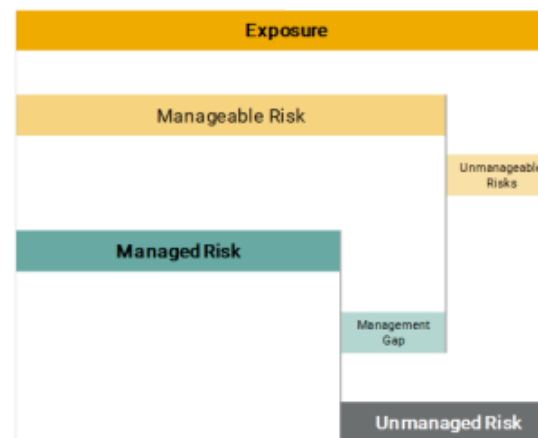


Exhibit 5: ESG Risk Ratings –

Figure 1 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance*	Corporate Governance	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

* The Governance Pillar carries we



Company Exposure	=	Subindustry Exposure	*	Issue Beta	
	=	8	*	1.5	= 12
Manageable Risk	=	Company Exposure	*	MRF	
	=	12	*	90%	= 10.8
Managed Risk	=	Manageable Risk	*	Management score (as %)	
	=	10.8	*	75%	= 8.1
Unmanaged Risk	=	Company Exposure	-	Managed Risk	
	=	12	-	8.1	= 3.9

Source: Sustainalytics

E&P and integrated

The higher weighting of GHG emissions and waste and pollution reflects our view that the impact of pollution has been materially greater than other environmental factors in the past, and our expectation that the transition away from fossil fuels, in particular oil, will likely become increasingly important.

Factor	Weight	Key performance indicators	Other performance indicators
Greenhouse gas emissions	40%	<ul style="list-style-type: none"> Scope 1 emissions intensity (tons of carbon dioxide equivalent [tCo2e], by output) Scope 2 emissions intensity (tCo2e, by output) % of gas in the production mix 	<ul style="list-style-type: none"> Flaring intensity (tCo2e, by output) Methane intensity (tCo2e, by output) Energy intensity (by output) % of energy sourced from renewable sources Scope 3 emissions (tCo2e)
Waste and pollution	30%	<ul style="list-style-type: none"> % of offshore in the production mix Hydrocarbon spills (number and volume) Sulfur oxide, nitrogen oxide, and volatile organic compound intensity (tons, by output) 	<ul style="list-style-type: none"> Wastewater volumes (cubic meters [m3] by output) % of waste that is recycled % of hazardous waste
Land use and biodiversity	15%	<ul style="list-style-type: none"> % of production or assets from areas with protection or conservation status 	<ul style="list-style-type: none"> % of production or assets from areas with threatened, vulnerable, endangered, and critically endangered species
Water	15%	<ul style="list-style-type: none"> % of hydraulic fracking in the production mix % of production from water-stressed regions Water intensity (m3, by output) 	<ul style="list-style-type: none"> % of water that is recycled

S&P Global

Examples in Practice



Woodside Petroleum Ltd

Industry Group: **Oil & Gas Producers**

Country/Region: **Australia**

Identifier: **ASX:WPL**

Incorporated in 1954 and named after the small Victorian town of Woodside, Woodside's early exploration focus moved from Victoria's Gippsland Basin to Western Australia's Carnarvon Basin. First LNG production from the North West Shelf came in 1984. BHP Billiton and Shell each had 40% shareholdings before BHP sold out in 1994 and Shell...
[+ Show More](#)

Full time employees: **3,670**

ESG Risk Rating

COMPREHENSIVE ?

26.7 Medium Risk



Ranking

Industry Group (1st = lowest risk)

Oil & Gas Producers **12** out of 261

Universe

Global Universe **7159** out of 15125

Last Update: **Jan 21, 2022**

Tullow Oil PLC

Industry Group: **Oil & Gas Producers**

Country/Region: **United Kingdom**

Identifier: **LON:TLW**

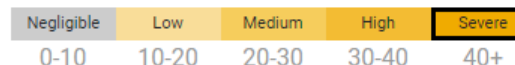
Tullow Oil PLC is an independent oil and gas exploration and production company. The company conducts exploration, appraisal, and development activities in African and Atlantic regions. The majority of revenue is derived from West African assets, with a focus in offshore fields. Assets used in oil and gas production are acquired through...
[+ Show More](#)

Full time employees: **495**

ESG Risk Rating

COMPREHENSIVE ?

44.1 Severe Risk



Ranking

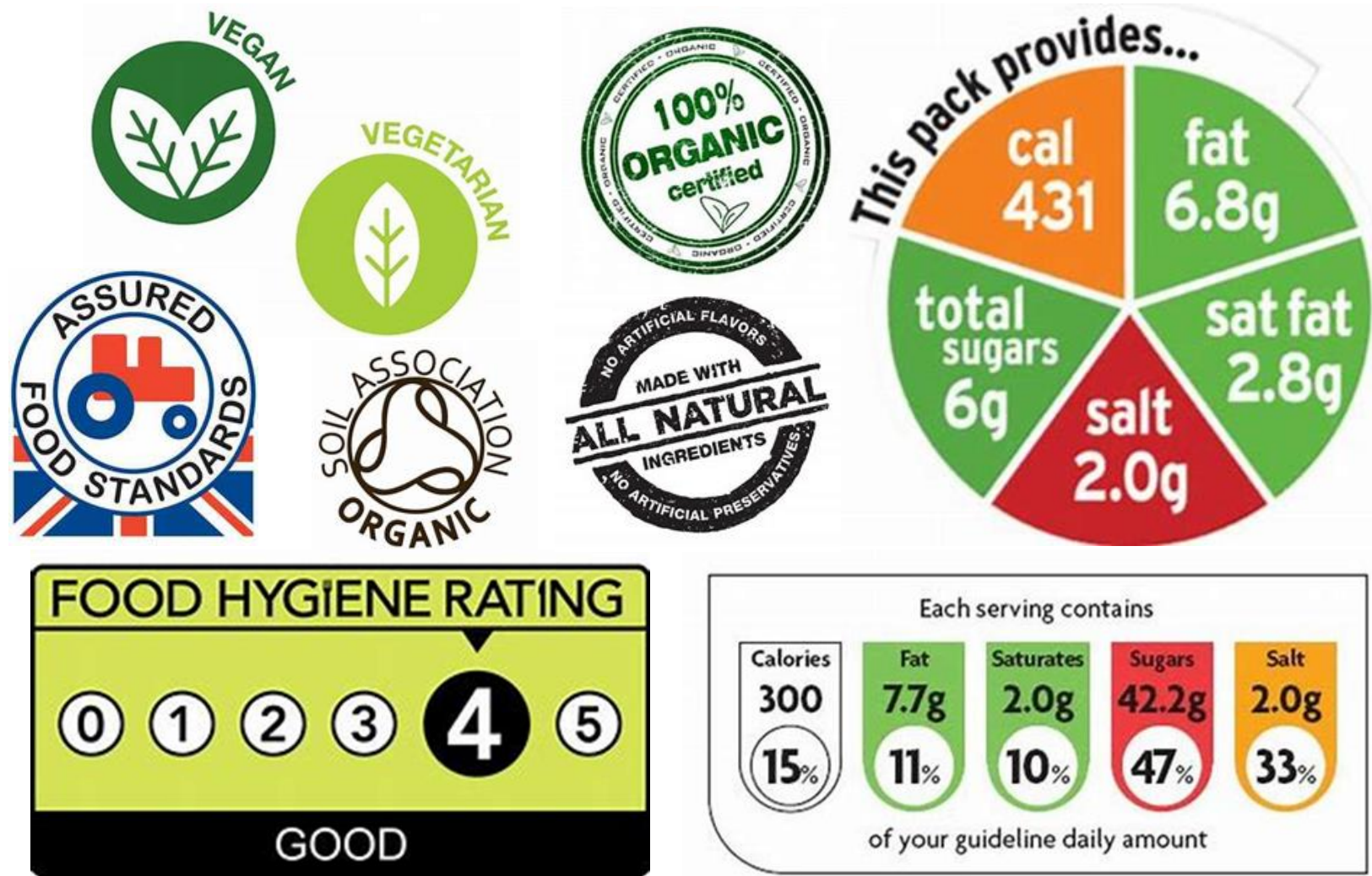
Industry Group (1st = lowest risk)

Oil & Gas Producers **141** out of 261

Universe

Global Universe **14067** out of 15125

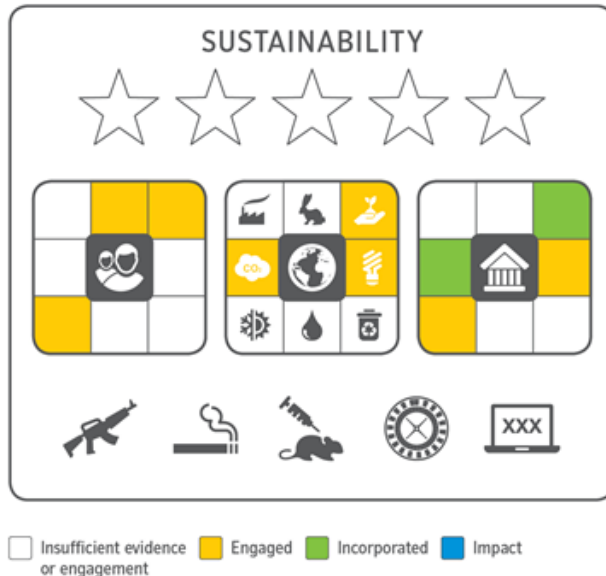
Insights from other industries



Nutrition Facts

Serving Size 85 g			
Amount Per Serving			
Calories 167		Calories from Fat 71	
		% Daily Value*	
Total Fat 8g		12%	
Saturated Fat 3g		14%	
Trans Fat 0g			
Cholesterol 62mg		21%	
Sodium 37mg		2%	
Total Carbohydrate 0g		0%	
Dietary Fiber 0g		0%	
Sugars 0g			
Protein 23g			
Vitamin A 0%		Vitamin C 0%	
Calcium 1%		Iron 3%	
*Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.			
NutritionData.com			

Ratings & Impact on Funds



Passive FTSE Tracker



Active Multi-Manager Fund



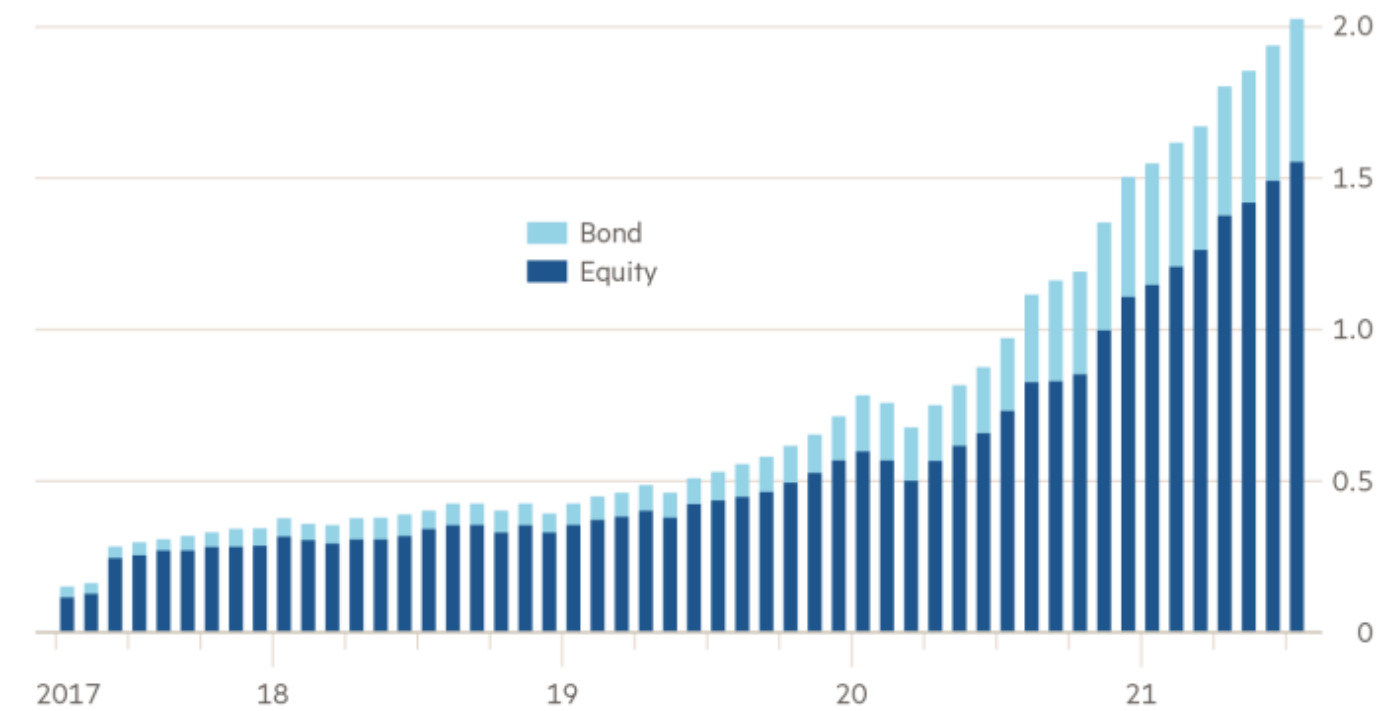
Environmental Impact Fund

Wider investor trends (i)

Sustainable funds have exploded since the pandemic

ESG and SRI funds

Assets under management (\$tn)



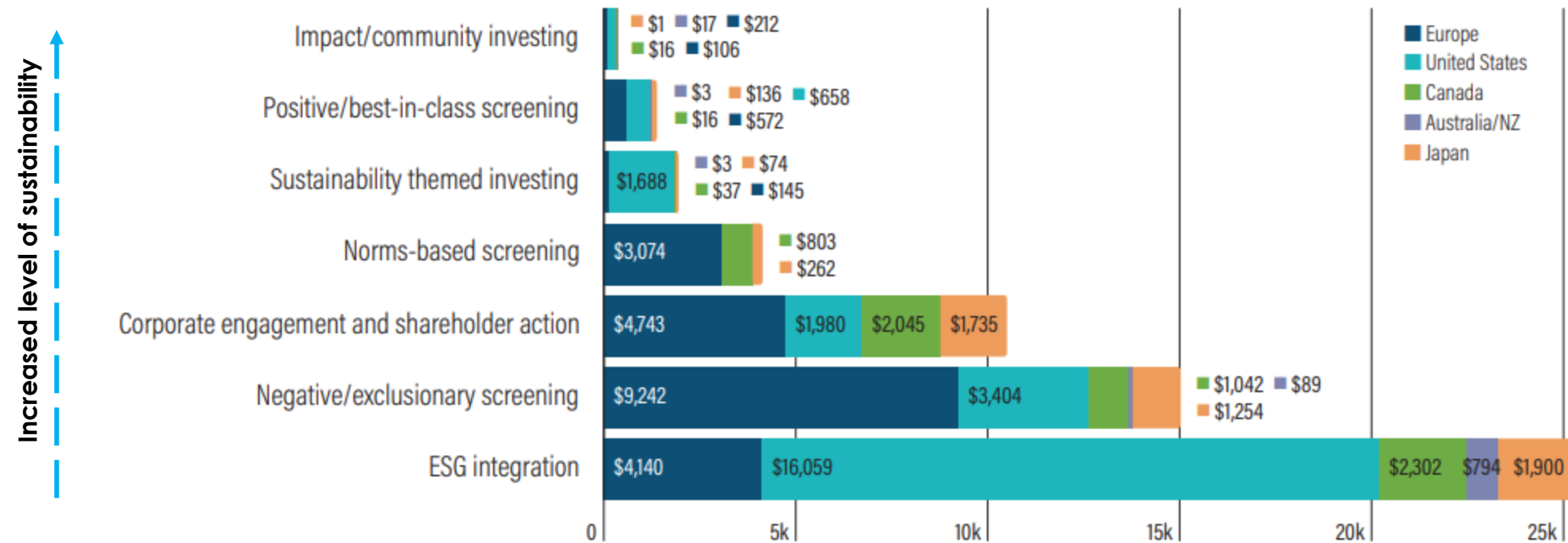
Source: Bank for International Settlements © FT **Note.** Environmental Social Governance & Socially Responsible Investments.

Wider investor trends (ii)



In Europe the focus is shifting to more sustainable investment

FIGURE 6 Sustainable investing assets by strategy & region 2020



Figures expressed in billions of US dollars. **Source:** Global sustainable Investment Alliance
Note. Some assets are managed using more than one strategy

- Key drivers of the growth of sustainable finance...
- Urgency of the climate threat
- Public policy direction of travel
- Shifting corporate attitudes and evolving consumer preference

■ Per cent change in credit risk YTD



Examples in Practice



Woodside Petroleum Ltd.

RATING TYPE	RATING	Woodside Petroleum Ltd
Local Currency LT	BBB+ <u>Regulatory Disclosures</u>	<p>Industry Group: Oil & Gas Producers Country/Region: Australia</p> <p>Identifier: ASX:WPL</p> <p>Incorporated in 1954 and named after the small Victorian town of Woodside, Woodside's early exploration focus moved from Victoria's Gippsland Basin to Western Australia's Carnarvon Basin. First LNG production from the North West Shelf came in 1984. BHP Billiton and Shell each had 40% shareholdings before BHP sold out in 1994 and Shell... + Show More</p> <p>Full time employees: 3,670</p>
		<p>ESG Risk Rating COMPREHENSIVE ?</p> <p>26.7 Medium Risk</p> <p>Negligible Low Medium High Severe 0-10 10-20 20-30 30-40 40+</p> <p>Ranking</p> <p>Industry Group (1st = lowest risk) Oil & Gas Producers 12 out of 261</p> <p>Universe</p> <p>Global Universe 7159 out of 15125</p> <p>Last Update: Jan 21, 2022</p>

Tullow Oil

RATING TYPE	RATING	Tullow Oil PLC
Local Currency LT	B- <u>Regulatory Disclosures</u>	<p>Industry Group: Oil & Gas Producers Country/Region: United Kingdom</p> <p>Identifier: LON:TLW</p> <p>Tullow Oil PLC is an independent oil and gas exploration and production company. The company conducts exploration, appraisal, and development activities in African and Atlantic regions. The majority of revenue is derived from West African assets, with a focus in offshore fields. Assets used in oil and gas production are acquired through... + Show More</p> <p>Full time employees: 495</p>
		<p>ESG Risk Rating COMPREHENSIVE ?</p> <p>44.1 Severe Risk</p> <p>Negligible Low Medium High Severe 0-10 10-20 20-30 30-40 40+</p> <p>Ranking</p> <p>Industry Group (1st = lowest risk) Oil & Gas Producers 141 out of 261</p> <p>Universe</p> <p>Global Universe 14067 out of 15125</p>

Tullow Oil PLC

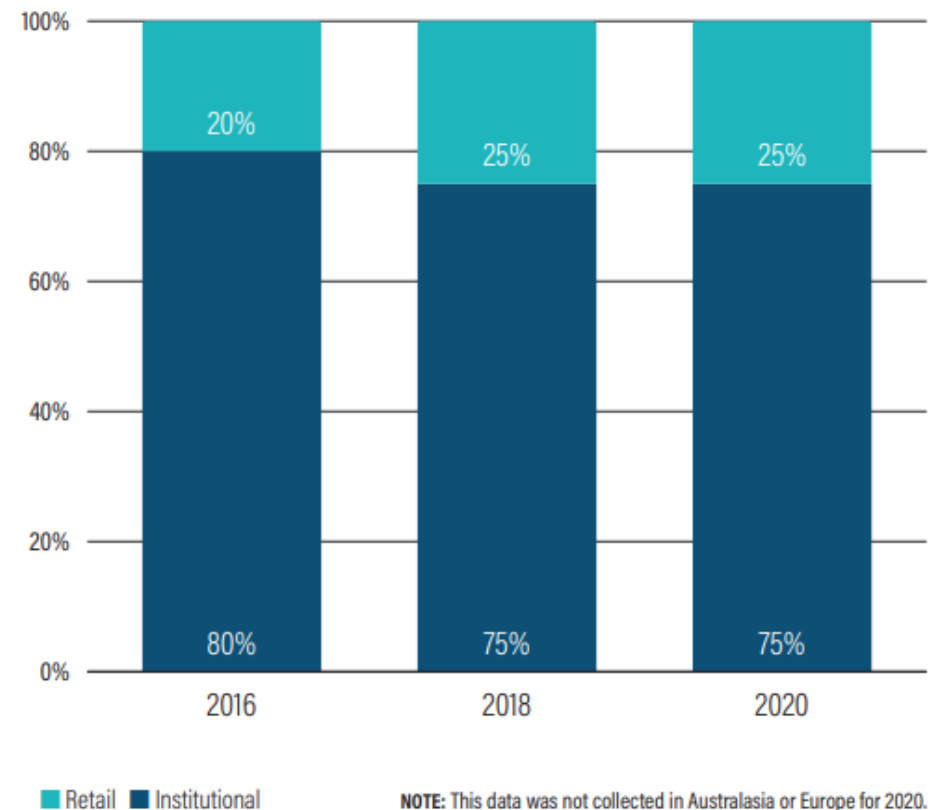
RATING TYPE	RATING	Outlook	Outlook Date
Local Currency LT	B- <u>Regulatory Disclosures</u>	Stable	18-May-2021

Who's money is it?



Majority of sustainable investment coming from institutional investors

FIGURE 9 Global shares of institutional and retail sustainable investing assets 2016-2020



The role of the Regulators



G20 Task Force on Climate Related Financial Disclosures (**TCFD**) recommendations becoming mandatory across G20 countries for **listed** and **large** companies:

- UK (2023/2025; via 414CA Companies Act 2006)
- **OGA 2023**
- New Zealand (2023)
- Hong Kong (2025)
- Australia... ?

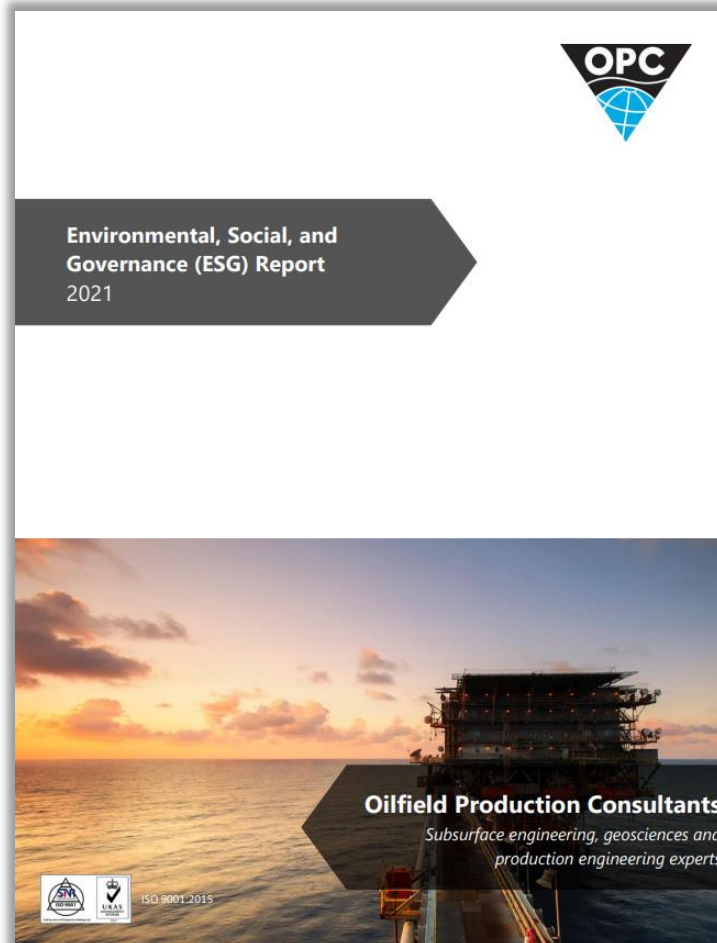
8 March 2021 - Press release

**OGA ESG Taskforce
recommends enhanced
disclosure and investor
reporting**

OPC's Story



OPC Example - Environment Report			
	2022	2021	2020
Atmospherics			
Scope 1 total emissions (tonnes of CO2e)			
Scope 2 total emissions (tonnes of CO2e)			
Scope 3 total emissions (tonnes of CO2e)			
CO2 emissions (tonnes)			
CH4 emissions (tonnes)			
N2O emissions (tonnes)			
Emission Intensity (kgCO2e/boe)			
Carbon Intensity (kgCO2/boe)			
Methane Intensity (%)			
Flaring			
Total gas flared (tonnes)			
Total oil flared (tonnes)			
Total hydrocarbon flared (tonnes)			
Water Usage			
Metered water (m3)			
Seawater (m3)			
Ground water abstraction (m3)			
Fresh water (m3)			
Other water (m3)			
Total water usage (m3) - all operational sites			
Recycled water (m3)			
Total water from sustainable sources (m3)			
Waste			
Total Waste disposed (Tonnes)			
Waste Recycled / Re-used / Treated (%)			
Waste Recycled / Re-used / Treated (Tonnes)			
Hazardous waste disposed (Tonnes)			
Hazardous waste Recycled / Re-used / Treated (%)			
Non-hazardous waste disposed (Tonnes)			
Non-hazardous waste Recycled / Re-used / Treated (%)			
Uncontrolled releases			
Oil & Chemical spills (#)			
Oil & Chemical spills (tonnes)			
Energy Use			
Total energy use (GJ)			
Total energy use (GWh)			
UK Total energy use (GJ)			
UK Total energy use (GWh)			
Total energy use by production (GJ per thousand tonnes hydrocarbon produced)			
Total Energy use by production (kWh per thousand tonnes hydrocarbon produced)			
Fines and Sanctions			



2

OPC ESG POLICY

OPC

Managing Directors Foreword

I am very pleased to present OPC's first Environmental, Social, and Governance (ESG) policy which outlines our measured environmental impact, social outreach, and governance strategy. Before discussing our approach and policies in detail it is worth recapping why it is important to us to make these disclosures. We understand the material risk posed by the impact of every changing climate change on the environment and thus have sought to support clients through the energy transition. It has been a pleasure to work on a number of these projects including 'Carbon Capture and Storage' and greenhouse gas inventorying. We will continue to invest in strategically aligning OPC's business interests with the demands of the market by supporting our clients to decarbonise their operations and improve their outlook by accurately disclosing their environmental performance and measuring climate related risk. We understand that as an industry we must successfully minimise our environmental impact and make disclosures that demonstrate to stakeholders that we are actively managing a wider range of risks. Environmental impact is no longer an optional requirement in our industry, it is now critical for the license to operate oil and gas assets and as such a business's environmental, social and governance strategy should take core prerogative in all company decision making.

Whilst this initial ESG policy is limited in scope, in the future OPC may consider adopting a petroleum industry recognised standard of disclosure such as TCFD to align our reporting procedures to that of the industry where appropriate.

London, Aberdeen UK | Doha Qatar | Houston USA | Altyrau, Nur-Sultan Kazakhstan | Stavanger Norway | Dubai UAE

Tel: +44 (0)20 7428 1111 web: www.opc.co.uk e-mail: info@opc.co.uk

Summary & Discussion

- ESG is risk management
- Better ESG = **improved access to capital**
- ESG & TCFD to be **mandatory** across G20 countries
- OGA through the updated **Strategy** expecting **better ESG credentials**

