

# Kosmos Energy: On Hydrocarbon Exploration Offshore Western Sahara

**K**osmos Energy holds a petroleum agreement over an area offshore Western Sahara referred to as “Cap Boujdour” with our partners ONHYM (Office National des Hydrocarbures et des Mines), a governmental agency of the Kingdom of Morocco and Capricorn Exploration & Development Company Limited, a wholly-owned subsidiary of Cairn Energy plc (“Cairn”)[LSE: CNE].

On December 19, 2013, ONHYM and Kosmos Energy signed a [Joint Declaration of Principles](#). This sets out our joint commitments regarding our exploration activities and the key principles under which hydrocarbon development would proceed, if any commercially viable deposits are discovered; including, among other things, that any such development would be undertaken in accordance with international standards, including those in the United Nations Charter, and those referred to in the [2002 United Nations Legal Opinion on resource development in Western Sahara](#). Following publication of the Joint Declaration, we want to take this opportunity to elaborate on Kosmos Energy’s activities offshore Western Sahara and outline the compelling case for resource exploration there.

This Joint Declaration is the latest evidence of our commitment to the region. From the beginning of our involvement offshore Western Sahara nearly eight years ago, we have spent significant time and resources to develop our understanding of the complex and nuanced situation on the ground. As part of this, we have worked closely with the Government of Morocco as well as international governance and economic experts to contribute to ongoing efforts to formulate a framework for hydrocarbon development in the region, which would be clearly for the benefit of the people of the territory.

Our activities are currently focused solely on exploration. We believe that, if exploration is successful, responsible resource development in Western Sahara has the potential to create significant long-term social and economic benefits for the people of the territory. If we were to make a commercially-viable discovery, then we would only proceed with development in accordance with international law and best practices.

As a company, we have committed ourselves to operating ethically, transparently and consistently with industry best practice in all aspects of our business. Corporate responsibility is a core element of our business strategy because we recognize that exploration for and ultimately development of hydrocarbon resources can have profound implications for producing countries. As such, we are committed to putting as much emphasis on the management of our societal impacts as we do on the management of our operational, technical and financial risks.

## WESTERN SAHARA AND KOSMOS ENERGY

Since 1963 the United Nations has classified Western Sahara as a “Non-Self-Governing Territory,” one of 17 such territories in the world. Morocco now administers the territory and, for a quarter of a century, the UN has been in negotiations with Morocco and the Polisario Front aimed at reaching agreement on the long-term status of the territory, with Mauritania and Algeria participating recently as observers. As part of these continuing negotiations, in 2007, Morocco proposed an initiative under which the people of the territory would have substantial autonomy to run their own affairs under Moroccan sovereignty, including the development of natural resources. The [Joint Declaration of Principles](#), signed between Kosmos and ONHYM, states that local populations will benefit efficiently, effectively and transparently from production of hydrocarbons, if commercially viable reserves were to be discovered.

Kosmos has held rights over the Cap Boujdour block, approximately 70 kilometers offshore Western Sahara, since 2006 under a petroleum agreement with ONHYM. Kosmos renewed the agreement for the Cap Boujdour block in July 2011. Recognizing the importance of transparency around host government agreements, this [agreement is posted on our website](#) (see exhibit 10.27). In October 2013, we entered into a farm-out agreement covering the Cap Boujdour block with Cairn to partner with us on this project. Cairn shares our strong

commitment to operating in Western Sahara in a socially responsible manner, as their record in India and Bangladesh demonstrates.

Exploratory drilling and, if successful, more detailed appraisal, will be required to determine whether hydrocarbons exist in quantities sufficient to warrant the significant investment required for development. This process would take many years.

## PROMOTING RESPONSIBLE RESOURCE ACTIVITIES IN WESTERN SAHARA

We know that some have reservations about any companies investing in Western Sahara. Among the questions we have faced from some stakeholders, including ethical investors, are concerns about whether our activities in the region include consultation with the people of the territory and, further, will such activities be for their benefit. We have been clear about that: our activities have been, and will always be, conducted in a manner that is both fully inclusive and for the benefit of all the local population, without exception.

Over the last three years we have been working actively with the Government of Morocco and other stakeholders to understand and address these issues in order to promote responsible resource development.

The [2002 UN Legal Opinion](#) is the touchstone regarding resource activities in Western Sahara. The [Joint Declaration of Principles](#) with ONHYM refers to United Nations Charter principles as well as the Opinion. The Opinion, prepared at the request of the UN Security Council, views Morocco as the *de facto* administering power of Western Sahara and sets out, with reference to administering powers, certain rights and duties to be observed in respect to any resource exploration and development there. The Opinion remains authoritative and has continued to be relied upon by important international organizations.

It is our view that responsible resource exploration and, if successful, development in Western Sahara can and should occur in parallel with the UN-led discussions on the region's future. Further, we believe that it will not, and need not, prejudice the negotiations or the outcome of that political process. We hope that the UN-sponsored discussions will promote a consensus on the status of the territory. Kosmos Energy, of course, has no political role regarding the status of Western Sahara; nevertheless, we are committed to being a responsible corporate citizen that is cognizant of the broader context in which we operate. To this end, we are committed to listening to all stakeholders to ensure that we have a comprehensive understanding of the situation.

As the *de facto* administering power of Western Sahara, Morocco has an important role to play in the oversight of responsible resource development. If hydrocarbons are discovered and produced, the equitable and transparent sharing and use of public revenues derived from such production will be an important element in ensuring that the people of the territory benefit from such activities.

In late 2012, the King of Morocco directed the independent constitutional body, the [Economic, Social and Environmental Council](#) (CESE) to create a platform for the analysis and formulation of proposals for a new development model for the territory.

The CESE undertook extensive consultations in Western Sahara about governance issues and development needs with diverse stakeholders (including civil society, local officials, the private sector and political groups and representatives). In November 2013, [the CESE issued its final, detailed report](#) on a new, participatory and inclusive development model in Western Sahara, with effective governance and respect for human rights, titled "New Development Model for the Kingdom's Southern Provinces."

The report makes clear that this New Model's foundation is "...the respect for and promotion of basic human rights in the broadest sense, including economic, social, cultural and environmental rights. Through the development of guidelines for an integrated, sustainable development project based on the genuine participation of citizens in the management of their own local affairs, the aim of the Council is to contribute to the collective effort required to rise to the challenge of achieving social cohesion, prosperity and equitable benefit from the resources of..." the territory.

In this regard, the report calls for natural resources development in Western Sahara to be conducted sustainably and for the preponderance of public revenues from such development to be used to benefit the local population fairly, equitably and transparently, and in consultation with them and their representatives.

The CESE has also driven a robust and candid discussion around the important issue of human rights in Western Sahara. While Morocco has made progress in this area, the CESE focuses on the significant work still to be done by all levels of government to better protect and promote human rights in the territory. We are keenly interested in the human rights situation in Western Sahara and will continue to carefully evaluate the potential impact of our activities on it, consistent with our own corporate human rights commitments.

## OUR COMMITMENT AND VALUES

We understand that if our exploration efforts are successful, the development of resources will rest on meeting the international community's expectations with respect to the political and social sensitivities in Western Sahara.

Since 2006, we have demonstrated a lasting commitment to the region which, if oil and gas resources are discovered to merit development, will continue for the long term. We are confident that all our activities will meet international expectations for responsible corporate behavior and practices. Our work over the last decade in countries such as Ghana and Cameroon demonstrates our commitment to advancing societies and working to create a positive long-term legacy in the countries where we work.

Our **Business Principles** form the cornerstone of everything we do as a company. They articulate our commitment in all of our operations and activities to transparency, ethics, human rights, safety and the environment, among other key values. They are based on widely accepted international benchmarks and industry best practice. Our **human rights policy** further elaborates our commitment to behaving in a responsible and respectful way towards external stakeholders, employees and contractors. Kosmos is also a supporter of the Extractive Industries Transparency Initiative (EITI) and the UN Global Compact.

Our first **Corporate Responsibility Report**, published in 2013, describes our commitments to sustainably advance the societies where we work, and we see this as integral to our strategy of positioning Kosmos as a favored partner of governments and citizens alike.

Our commitments become even more important in politically sensitive regions such as Western Sahara. We will strive to ensure that our operations in the region are conducted in accordance with key international standards, including the UN Guiding Principles on Business and Human Rights, and the Voluntary Principles on Security and Human Rights.

We have initiated the processes to conduct environmental and social impact assessments going beyond regulatory requirements. As a part of these assessments, we will continue to consult stakeholders and provide them with opportunities to express their views on an ongoing basis, including through the establishment of a formal grievance mechanism.

We will conduct our operations in a manner that benefits the local population of the territory, through social investment projects based on needs assessments that we are conducting in consultation with elected representatives, civil society and local NGOs. As a result, we expect that

local people will begin to see some benefits, even during this early phase of our offshore exploration and regardless of exploration success. We are also assessing opportunities for training and capacity-building programs in the future, so that if we make a commercial discovery, all of the people of the territory - regardless of their ethnic, racial, religious, or gender status - will be able to participate in employment and supply chain opportunities generated by oil and gas operations.

We would like to take this opportunity to make clear that we will not proceed with this or any other project if our **Business Principles** are not met.

At Kosmos, we believe that our preparations for exploratory drilling are helping to encourage creative thinking and positive actions on how resources that may be found offshore Western Sahara could best be developed in ways that demonstrably accrue to the benefit of all the local population, as the **Joint Declaration of Principles** provides. We believe this process has and will continue to open channels for constructive dialogue able to surface issues of both concern and commonality.

Our management team has a tremendous depth of experience in working in socially and politically sensitive regions around the world, including in Africa, Southeast Asia and South America. We bring that experience and sensitivity to broader stakeholder concerns to this project. We have observed that well-managed economic and natural resource development can contribute in important ways to inclusive development and social cohesion.

For the reasons set out above, and in accordance with the **Joint Declaration of Principles**, we firmly believe that our investment in the region, if successful, will contribute to long-term benefit for all the people of the territory; significantly contributing to inclusive and sustainable economic development in a transparent manner.

We are committed to keeping an open dialogue with interested stakeholders on this issue and welcome engagement from stakeholders as our activities unfold.



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