CASE STUDY:

ExxonMobil

December 2021

We continue our longstanding dialogue with ExxonMobil through significant leadership changes at the board level

Background

- ExxonMobil is one of the world's largest integrated energy companies with upstream, refining, and downstream operations spanning 40 countries.
- Climate change is a material issue for ExxonMobil, which is the largest emitter in the US and the fifth largest emitter globally.
- In 2017, we joined 62% of shareholders to support the resolution requesting an annual assessment of long-term portfolio impacts of technological advances and global climate change policies.
- This case study covers engagement from the 2017 resolution to the 2021 proxy contest that successfully appointed three new directors to ExxonMobil's board.

Engagement objective:

Environmental:
Demonstrate how long-term strategy accounts for climate change; Stress test against various demand assumptions and policy scenarios; Develop plans to manage the transition to a low-carbon economy

Governance:
Appoint a non-US national director

Sustainable Development Goals:

13 CLIMATE ACTION

Our engagement

Following the 2017 resolution, we urged management to demonstrate how long-term strategy accounts for climate change, stress test against various demand assumptions and policy scenarios, and develop plans to manage the transition to a low-carbon economy. We asked the board to consider gaining wider international experience through appointment of a non-US national director. In 2018, we were the only investor representative group to ask a question at the company's pre-annual meeting webinar.

In 2019, we were disappointed that ExxonMobil appeared to be withdrawing from dialogue on climate change with investors and their representatives, reducing our access to management. We recommended votes against the members of the board affairs and public issues committees, for insufficient response to climate change. In 2020, we submitted an AGM question about the high oil price assumptions the company used to stress test capital projects and make other capital allocation decisions. The company did not answer our question.

In 2021, ExxonMobil faced a proxy contest in which an activist shareholder, Engine No. 1, proposed an alternative list of directors to those put forward by the company's board. We met with Engine No. 1 to discuss its criticisms of the company, which included: long-term financial underperformance; overly aggressive capital expenditure; and lack of sufficient plans for the energy transition. Engine No. 1 reported that, "ExxonMobil has underperformed the S&P 500 and each of its proxy statement peers (BP, Chevron, Shell and Total) for the last three, five and ten year periods, before and after the pandemic.[1]

[1] The Case for change | Reenergize Exxon (reenergizexom.com)

We met with ExxonMobil to discuss its response to the proxy contest. The company reported enhanced shareholder dialogue and changes in response to shareholder concerns, including greater capital expenditure discipline since 2017. The company described its climate change strategy around mitigating emissions in operations, providing products to help customers reduce their emissions, and developing and deploying scalable technology solutions. The company announced targets to reduce Scope 1 and 2 emissions intensity by 15-20% before 2025, for operated assets only.

Changes at the company

Following engagement with both Engine No. 1 and ExxonMobil, we recommended supporting the proxy contest. We believe additional board refreshment is necessary given the company's long-term financial underperformance. The concerns expressed by Engine No. 1 echo many of those expressed in EOS' engagement with the company over the years. Prior to the annual meeting, we filed an SEC Notice of Exempt Solicitation[2] disclosing our position publicly.

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Engine No. 1 successfully appointed three new directors to ExxonMobil's board, replacing three directors that had been nominated by the company. The directors are Gregory Goff, former CEO of Andeavor; Kaisa Hietala, former executive vice president of renewable products at Neste; and Alexander Karsner, senior strategist at X (formerly Google X).

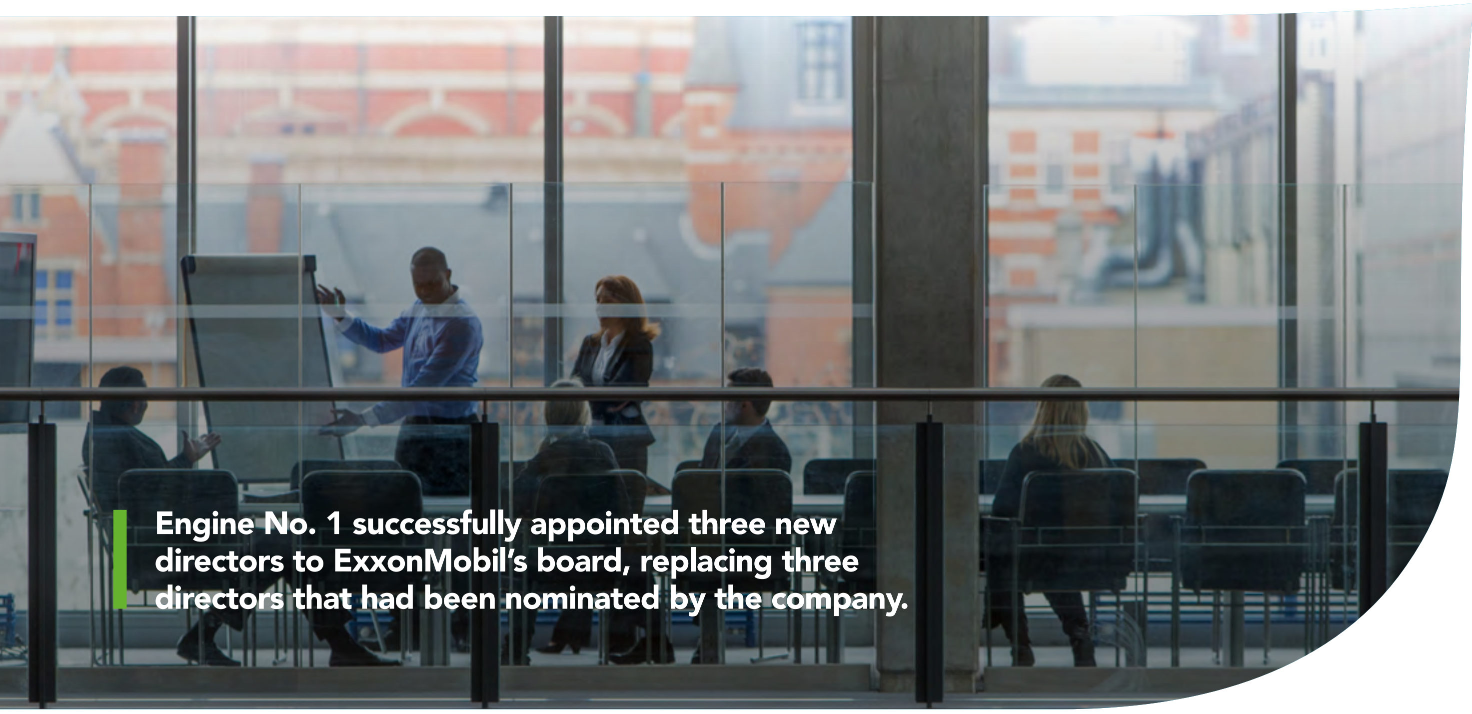
Since the annual meeting, ExxonMobil has taken some actions, for example, committing $15 billion for lower-emissions investments through 2027; announcing a net zero plan and beginning methane certification for some production in the Permian Basin; and joining 11 companies to support large-scale carbon capture utilization and storage technology. We seek to understand how these achievements fit within broader long-term changes desired by shareholders, and eagerly await further communications from the board.

Next steps

After the proxy contest, we sent a letter encouraging ExxonMobil to enhance disclosure on the approval process for all projects and the oil price assumptions used in all projections. We requested targets demonstrating how Scope 3 emissions from product use will be reduced over time in line with the International Energy Agency's 2050 net zero scenario, in both emissions intensity and absolute emissions terms. We alerted the company that we recommended supporting their auditor by exception as climate change is not described as a factor in the audit committee report nor in the management resolution to ratify PricewaterhouseCoopers.

Nick Pelosi
Engagement
EOS

This case study has been fact-checked by ExxonMobil to ensure a fair representation of EOS work carried out and changes made at the company.



[2] Exxon Mobil Corp 2021 Shareholder Solicitation by 3rd Party PX14A6G (sec.report)

Case studies are shown to demonstrate engagement, EOS does not make any investment recommendations and the information is not an offer to buy or sell securities.

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