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London/New York/Sydney 00.01 GMT Monday 15 May 2017

New Investor Report: Oil & gas companies show progress on climate change, but laggards like ExxonMobil remain way behind

In a new report, published today, global investors conclude that some of the largest global oil and gas companies such as Statoil, Eni and Total are well ahead of others like ExxonMobil when it comes to climate change management and disclosure.

Investor Climate Compass: Oil and Gas – Navigating Investor Engagement **is** a joint report from the four investor networks that make up the Global Investor Coalition on Climate Change (GIC) and CDP. It analyses the impact of persistent climate-focused investor engagement – through private dialogue and public challenge via shareholder resolutions – on 10 large oil and gas companies in North America and Europe [(1).]

The report confirms that investor engagement has had a discernible impact on board and executive decision-making with respect to the disclosure and management of climate change risks, highlighting progress and the remaining challenges in five core areas of investor concern or 'expectations' [(2).]

Among the report's key findings:

On governance: Half the companies evaluated in this report now link executive compensation to GHG emissions performance, but only two companies link incentives to upstream or strategic intent to reduce emissions. Edward Mason, Head of Responsible Investment at the Church Commissioners for England said: *"Investors want to see the boards of oil and gas companies set measurable objectives related to their pursuit of climate change resilience. While it's encouraging that half the companies evaluated have started to link executive remuneration to emissions performance, only BP and Statoil link remuneration to a strategic intent to reduce the company's climate impact. We'd like to see all major oil and gas companies link executive remuneration to the development and delivery of long term lower carbon strategies."*

On strategy: Seven of the 10 companies have conducted scenario analysis to identify how their business strategies must evolve to adapt to the impacts of the Paris Climate Agreement and its goal to limit greenhouse gas emissions enough to limit average global temperature rise to less than 2°C. Only three companies have so far sought to quantify the financial impacts of the IEA' s 450ppm scenario. "*Given that the low carbon transition is happening and oil demand could peak within a decade, there can no longer be any difference between overall strategy and climate strategy,*" said Helen Wildsmith, Stewardship Director at CCLA, and lead author of the 2015 BP 'strategic resilience' resolution backed by shareholders and the board.

On implementation: Only three of the 10 companies have divested or scaled back from high carbon assets such as Canada's oil sands in order to curb their stranded asset risk exposure. Moreover, only about 1.5 % of the ten companies' total capital expenditures in 2016 were directed into low carbon investments. Edward Mason, Head of Responsible Investment at the Church Commissioners for England added: *"Earlier this year Exxon had to de-book 3.5bn barrels of oil sands which fail to meet SEC criteria for proved reserves. This report places ExxonMobil at the back of the pack on climate change strategy, disclosure and willingness to dialogue with shareholders. It underlines the importance of investors backing this year's shareholder proposal calling on Exxon to undertake and disclose 2°C scenario analysis*."

On transparency, eight companies have disclosed their Scope 3 emissions to investors, alongside Scope 1&2 emissions (in 2015), but only four have set emissions reduction targets. "*Disclosure of public targets that comprehensively cover operational emissions are a sign that carbon management is being taken seriously. Some companies in this sample, such as ENI, are already moving in this direction. But investors also need greater clarity on how an assessment of Scope 3 emissions helps shape business strategies that are sufficiently flexible to adjust to lower carbon energy pathways,"* said Matthias Beer, Associate Director Governance and Sustainable Investment, BMO Global Asset Management.

On public policy, eight of the companies have signalled clear support for the Paris Climate Agreement but all will need to do more to strengthen their public support for robust national and international climate policies. Tim Smith, Director of Environmental, Social and Governance (ESG) Shareowner Engagement at Walden Asset Management, said: *"Investors are increasingly concerned about how oil and gas companies are influencing the low-carbon transition through lobbying and public policy advocacy. While a number of major oil and gas companies have publicly expressed support for the Paris Climate Agreement, company lobbying and industry trade associations continue to fight regulations and legislative efforts to catalyse the transition. It is vitally important that company boards review their climate advocacy and find new creative ways to be supportive of moving us forward."*

Considering the overall impact of the engagement evaluated in the report Tim Goodman, Director, Hermes Investment Management said "This report highlights the most pressing outstanding investor concerns to be addressed during the 2017 proxy season, not least at Exxon's AGM on 31 May. It also clearly demonstrates how and why it is vital institutional investors become more ambitious about the direction of their stewardship strategies for 2017/2018. We need to apply significantly more pressure using all the tools available, from private dialogue about portfolio resilience and 2°C transition planning, through to more public comment on our expectations for the oil and gas industry. In selected cases, resolutions requesting greater disclosure in line with TCFD (Task Force on Climate-Related Financial Disclosures) recommendations can play an important role to strengthen both of these efforts. It is also important to step up engagement with oil and gas industry beyond the European and North American majors, to oil and gas companies across the world. We must also acknowledge that the oil and gas industry is responding to demand and we need to ensure that we have similar dialogue with other sectors as well about how they are responding to the recommendations of the TCFD."

Overall, the report highlights the most pressing outstanding investor concerns to be addressed during the rest of the 2017 proxy season, not least at Exxon's AGM on 31 May. It demonstrates how and why institutional investors are likely to become more ambitious about the direction of their stewardship strategies for 2017/2018 and may apply significantly more pressure either via the use of shareholder resolutions requesting greater disclosure in line with TCFD or through private dialogue about portfolio resilience and 2°C transition planning. They are also likely to pursue new engagement with Asian oil producers and mid cap companies in Europe, North America and Australia.

Looking to the future, the report forecasts that oil and gas companies across all regions are likely to face growing demands from investors for: more competent climate governance; stronger linkages between executive compensation and climate performance indicators (rather than reserve replacement or short term operational emissions); greater effort to curb methane emissions and sequester carbon; more information about Scope 3 emissions and clear targets for reducing them; published information about the financial impact of analysis of demand scenarios aligned to 2°C and Paris Agreement - not just scenarios a company considers most likely; and far greater transparency about assumptions concerning carbon price, technology adoption and future oil prices.

Finally, engaged investors want these companies – especially members of Oil & Gas Climate Initiative (OGCI) - to call more actively on policy makers to apply carbon pricing and bring forward policies consistent with the Paris Agreement's goals. They must also disclose precisely how they are working through trade associations to address policy misalignments.

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Notes for Editors

(1) *Investor Climate Compass: Oil and Gas – Navigating Investor Engagement* evaluates the performance of ten oil and gas companies (BP, Chevron, ConocoPhillips, Eni, ExxonMobil, Occidental, Shell + BG, Statoil, Suncor and Total) with a combined a market capitalisation of just over USD 1.2 Trillion that manage about 14% of total global production, or just over 21 million barrels of oil equivalent per day, against those investor expectations and the results of CDP's research and analysis of the oil and gas sector as published in November 2016 (See *In the Pipeline: Which oil & gas companies are preparing for the future?'*).

(2) Investors who belong to the four regional investor networks that work together as the Global Investor Coalition on Climate Change (GIC) set out their common climate agenda for the fossil fuel sector – in the Investor Expectations Guide for Oil & Gas(first published in 2014 and recently updated in Dec 2016). These same concerns / demands are also reinforced via CDP's research framework. Investor expectations are grouped under five headings: governance, strategy, implementation, transparency and public policy. They include demands for better disclosure and the development of climate-resilient business strategies that employ scenario analysis for transition planning.

More about the report

The sample group of companies are the largest by market cap and the highest by impact of oil majors that respond to CDP. They also already have some level of engagement with the investor community. The rankings in this report reflect detailed analysis across a range of carbon metrics and indicators which could have a material impact on company performance which serve as a proxy for business readiness in an industry set to undergo significant change as a consequence of the Paris Agreement. This means *companies deemed least prepared for a low-carbon transition rank lowest*.

Each company chapter includes an outline qualitative history of (public and private) investor engagement compiled by one or more investors. Each profile combines expert investor assessment with CDP analysis to show the company are positioned for the low-carbon transition[1] and to identify the most pressing outstanding investor concerns to be addressed during this year's proxy season, which culminates in Exxon's AGM on 31 May. The report also suggest a few priority questions that investors should be asking of each company going forward - either through shareholder resolutions, AGM statements or via private dialogue – in order to ensure this sector develops effective 2°C analysis and transition planning.

This report is a collaboration between four investor networks that collaborate regularly as members of the Global Investor Coalition on Climate Change (AIGCC, Ceres, IGCC, IIGCC) and CDP. Please see overleaf for more details.

Asia Investor Group on Climate Change (**AIGCC**) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a greener economy. See www.aigcc.net and @AIGCC_Update.

CDP, formerly the Carbon Disclosure Project, is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. CDP represents institutional investors with assets of US$100 trillion, helping to leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts; whilst also providing insights into corporate environmental performance for investors. Over 5,800 companies with some 60% of global market capitalisation disclosed environmental data through CDP in 2016 alongside 500 cities and 100 states and regions, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. Please visit www.cdp.net or follow us @CDP to find out more.

Ceres is a sustainability nonprofit organization working with the most influential investors and companies in North America to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses. The *Ceres Investor Network on Climate Risk and Sustainability* comprises more than 130 institutional investors, collectively managing more than $17 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. For more information, visit www.ceres.org and follow @CeresNews.

Investor Group on Climate Change (**IGCC**) is a collaboration of Australian and New Zealand institutional investors and advisors, managing over $1 trillion in assets under management and focusing on the impact that climate change has on the financial value of investments. IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change. For more information, visit www.igcc.org.au and @IGCC_Update.

Institutional Investors Group on Climate Change (**IIGCC**) is a collaborative forum for 137 organisations in 9 European countries who between them manage assets in excess of €18 trillion. Its membership spans everything from belief-based funds to mainstream investors, from pension funds to fund managers and private equity houses. Its mission is to provide investors with a common voice to encourage public policies, investment practices and corporate behaviour which address long-term risks and opportunities associated with climate change. For more information, visit www.iigcc.org & @iigccnews.