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Investment Stewardship

Vote Bulletin: ExxonMobil Corporation

Company	**ExxonMobil Corporation (NYSE: XOM)**
Market and Sector	United States/Energy
Meeting Date	26 May 2021
Key Resolutions[1]	Proxy Contest (card presented by Engine No. 1)[2] **Item 1.1:** Elect Director Gregory J. Goff **Item 1.2:** Elect Director Kaisa Hietala **Item 1.3:** Elect Director Alexander A. Karsner **Item 1.4:** Elect Director Anders Runevad **Item 1.9:** Elect Director Kenneth C. Frazier **Item 1.12:** Elect Director Darren W. Woods **Item 4**: Require Independent Board Chair (Shareholder proposal) **Item 5**: Reduce Ownership Threshold for Shareholders to Call Special Meeting (Shareholder proposal) **Item 6**: Issue Audited Report on Financial Impacts of IEA's Net Zero 2050 Scenario (Shareholder proposal) **Item 7**: Report on Costs and Benefits of Environmental-Related Expenditures (Shareholder proposal) **Item 8**: Report on Political Contributions (Shareholder proposal) **Item 9**: Report on Lobbying Payments and Policy (Shareholder proposal) **Item 10**: Report on Corporate Climate Lobbying Aligned with Paris Agreement (Shareholder proposal)
Key Topics	Corporate strategy, climate risk, board quality and effectiveness, and corporate lobbying activities
Board Recommendation	The Board recommended voting AGAINST the four directors on the card presented by Engine No. 1 (Items 1.1-1.4), and AGAINST the shareholder proposals listed above (Items 4-10)
BlackRock Vote	BlackRock voted FOR three of the new directors nominated by Engine No. 1, Goff, Hietala and Karsner (Items 1.1-1.3) and FOR Frazier and Woods (Items 1.9 and 1.12), amongst other incumbent directors. We voted AGAINST the shareholder proposals on the Independent Chair (Item 4), Special Meeting (Item 5), Environmental-Related Expenditures and Political Contributions (Items 7 and 8). We voted FOR the shareholder proposals on the Financial Impacts of IEA's Net Zero 2050 Scenario (Item 6), Lobbying Payments and Policy and Lobbying Aligned with Paris (Items 9 and 10).

[1] ExxonMobil, "2021 Annual Meeting of Shareholders".

[2] Proxy Statement of Engine No. 1 Company LLC

Overview

ExxonMobil Corporation (Exxon) is an American multinational oil and gas corporation headquartered in Irving, Texas. The company is engaged in the exploration, development, and distribution of oil, gas, and petroleum products and operates through the following segments: Upstream, Downstream and Chemical.

BlackRock Investment Stewardship (BIS) has a long history of multi-year, comprehensive engagements with Exxon on a wide range of governance issues that we believe drive long-term shareholder value, such as board composition and independence from management, corporate strategy, and the oversight of climate risk, among other topics. In the last twelve months, we have engaged with the company twelve times.

Over the past several years, we have intensified our focus with the company on its long-term strategy and Exxon's underperformance relative to both its peers and the S&P 500 over the last five years. In our vote bulletin explaining our vote at last year's annual meeting, we emphasized our prevailing view that the risks of climate change and the transition to a lower carbon economy present material regulatory, reputational, and legal risks to companies that may significantly impair their financial position and ability to remain competitive going forward.

In response to shareholder feedback following Exxon's 2020 annual meeting, the company took steps to enhance its climate commitments and disclosures. In late 2020,[3] it announced updated greenhouse gas (GHG) emissions reduction targets, including for methane, that are "consistent with the goals of the Paris Agreement," plans to eliminate routine flaring by 2030, and a commitment to provide scope 3 emissions disclosure in 2021. In February 2021, the company announced the creation of a new business segment, ExxonMobil Low Carbon Solutions,[4] which will initially focus on advancing carbon capture and storage (CCS) opportunities globally. Exxon views CCS as a primary technology necessary to help both the company and society achieve its GHG emissions reduction targets. In addition, in April the company reaffirmed its broader corporate strategy to "drive earnings and cash flow growth, maintain a strong dividend, reduce debt and invest in lower-emission technologies."[5] The company detailed how it is investing in its portfolio "to increase cash flow while maintaining existing production levels needed to responsibly meet society's continued demand for oil and gas and high-value chemical products."[6]

We believe these steps represent progress on issues critical for delivering financial performance, but we believe more needs to be done in Exxon's long-term strategy and short-term actions in relation to the energy transition in order to mitigate the impact of climate risk on long-term shareholder value. Specifically, unlike many of its peers, Exxon has committed limited capital expenditure toward the diversification of its portfolio. The company has invested approximately $10.4 billion over the past twenty years (since 2000) to research, develop, and deploy lower-emission energy technologies,[7] compared to its total capital expenditure of $21.4 billion in 2020.[8] Additionally, unlike its peers, Exxon has not allocated capital toward scope 3 emissions reductions. Exxon has been clear about its position on the energy transition and the long-term demand for oil and natural gas, stating that "[u]nder most third-party scenarios that meet the objectives of the Paris Agreement, oil and natural gas

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[3] ExxonMobil, "ExxonMobil announces emission reduction plans; expects to meet 2020 goals".

[4] ExxonMobil, "ExxonMobil Low Carbon Solutions to commercialize emission-reduction technology".

[5] ExxonMobil, "ExxonMobil presentation details strategy to grow shareholder value, protect dividend and transition to lower-carbon future".

[6] See previous footnote.

[7] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement". Of this amount, approximately $4.6 billion is related to oil and gas operations, including energy efficiency, carbon capture and storage, and flaring and methane mitigation, and $2.7 billion has been committed to cogeneration facilities. Additional investments in refining and chemical facilities and research to identify additional emission-reduction opportunities accounted for the remaining $3.1 billion.

[8] ExxonMobil, "2020 Annual Report", "Capex in 2020 was $21.4 billion, as the Corporation continued to pursue opportunities to find and produce new supplies of oil and natural gas to meet global demand for energy."

continue to play a significant role for decades in meeting increasing energy demand of a growing and more prosperous global population."[9]

In our view, Exxon and its Board need to further assess the company's strategy and board expertise against the possibility that demand for fossil fuels may decline rapidly in the coming decades, as was recently discussed in the International Energy Agency's (IEA) Net Zero 2050 scenario.[10] The company's current reluctance to do so presents a corporate governance issue that has the potential to undermine the company's long-term financial sustainability.

BIS believes that those companies that proactively consider their operational footprint in the context of a low-carbon transition will be better positioned to avoid major disruptions and deliver long-term value to their shareholders. As we discuss in our commentary *Climate Risk and the Transition to a Low-Carbon Economy*, climate risk carries financial impacts that will reverberate across all industries and global markets, affecting economic stability and the long-term financial returns on which our clients depend to meet their investing goals.

Engine No. 1 LLC (Engine No. 1) has advocated for, among other things, improved capital allocation discipline, greater investment in technologies that will enable Exxon to meet more ambitious long-term total emissions reduction targets, and fresh perspectives in the boardroom to guide these, and other strategic changes. Engine No. 1 proposed replacing some current Board members with four new directors with experience relevant to the energy transition, Gregory Goff, Kaisa Heitala, Alexander Karsner, and Anders Runevad, who, if elected, it believes would be better able to help management align the business with a net zero economy and explore new growth areas.[11]

In response, Exxon announced in early 2021 the addition of its own new directors to the Board; Wan Zulkiflee, the former President and Group CEO of Petronas, the national oil and gas company of Malaysia; Michael Angelakis, the Chairman and CEO of Atairos and former Vice Chairman and CFO of Comcast Corporation; and, with the support of D.E. Shaw, Jeffrey Ubben, the co-founder of Inclusive Capital Partners. The company considers the appointment of Mr. Ubben, in particular, to be a signal of its willingness to revisit its long-term strategy, a view we share. Engine No. 1 expressed concern that these directors did not bring the necessary skills and experience to address the strategic issues it had identified.

On 24 May, Exxon published a Letter to Shareholders announcing additional commitments, including to appoint two new directors over the next twelve months, one with energy industry experience and one with climate experience.[12] While we welcome this commitment, and the emphasis in the letter on enhanced transparency and shareholder engagement, we believe more urgent action is required at this point, as further discussed in our voting rationales below.

Rationale for BlackRock's Vote

Items 1.1-1.4: Elect Directors Gregory J. Goff, Kaisa Hietala, Alexander A. Karsner, Anders Runevad (card presented by Engine No. 1) (FOR 1.1.-1.3)

Items 1.9, 1.12: Elect Director Kenneth C. Frazier, Elect Director Darren W. Woods (FOR)

[9] ExxonMobil, "Energy & Carbon Summary".

[10] International Energy Agency, "Net Zero by 2050".

[11] Board nominees include; Gregory Goff, the former CEO of refiner Andeavor, which was sold to Marathon Petroleum Corp, Kaisa Hietala, geo-physicist, who previously led the renewables business of Finnish refiner Neste, Alexander Karsner, an executive of Alphabet Inc.'s innovation lab (Google X) who served in the Energy Department under President George W. Bush, and Anders Runevad, former CEO of Vestas Wind Systems AS.

[12] ExxonMobil, "Definitive Additional Materials".

We continue to be concerned about Exxon's strategic direction and the anticipated impact on its long-term financial performance and competitiveness. In our view, the Board would benefit from the addition of diverse energy experience to augment existing skillsets. As a result, BIS supported three of the four directors nominated by Engine No. 1. We believe that they, together with Mr. Ubben, bring the fresh perspectives and relevant transformative energy experience to the Board that will help the company position itself competitively in addressing the risks and opportunities presented by the energy transition.

As indicated through our voting over the last several years and as detailed in our 2020 vote bulletin, we have historically had concerns about the Board's policy of not enabling direct engagement between investors and directors, although we note that engagement has improved somewhat this year. This voting also reflected our belief that Exxon's energy transition strategy falls short of what is necessary to ensure the company's financial resilience in a low carbon economy.

Exxon has historically recruited directors, who, while highly accomplished in their own right, lacked specific energy industry experience. We feel that having a broad range of energy experience on Exxon's Board could assist in further guiding the strategic direction of the company. While recently appointed Director Wan Zulkiflee comes from the Malaysian state-owned oil and gas company, Petronas, his business experience seems less relevant to a private sector company with a diverse shareholder base.

In contrast, we believe that three of the four directors nominated by Engine No. 1 bring relevant private sector experience including independent U.S. energy production (Mr. Goff); renewable products, including wind energy (Ms. Heitala); and energy infrastructure, legislation and new energy technology (Mr. Karsner). Hence, we believe that this suite of directors will complement the skills and experience of the remaining incumbent directors, bringing fresh perspectives as well as successful track records of value creation for shareholders.

BIS supported the re-election of Mr. Frazier and Mr. Woods because our engagement with each of them over the past several months has given us greater confidence that they are prepared to internalize shareholder feedback, and lead the company, in their respective roles as Lead Independent Director and CEO, on a more ambitious course of action in adapting to the energy transition and responding to shareholders. We also believe some leadership stability is important in the context of the urgency with which the company is expected to deliver on its commitments.

Item 4: Require Independent Board Chair (AGAINST)

BIS voted against this proposal because we believe our vote in support of the directors nominated by Engine No. 1 will introduce the necessary balance of independent perspective in the boardroom. Also, we have observed that Mr. Frazier in the role of Lead Independent Director is taking a more prominent position in engaging with shareholders.

The shareholder proposal requested that the Board adopt a policy to require an independent Chair.[13] BIS expects there to be independent leadership in the boardroom and is generally supportive of the approach to board structure deemed most appropriate by a company. We voted for this proposal in 2020, as it was the most appropriate way to signal our concern about the Board's apparent lack of independence from management. We believe that our support of the majority of the directors nominated by Engine No. 1, sends a clear signal to the company about our expectations that the Board demonstrate greater independence and fresh thinking.

[13] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement".

Item 5: Reduce Ownership Threshold for Shareholders to Call Special Meeting (AGAINST)[14]

BIS voted against this proposal, as shareholders can call special meetings at a 15% ownership threshold or at a 10% ownership threshold if a court order showing good cause is obtained.

Exxon already provides the right to call a special meeting at an appropriate threshold, which we believe offers shareholders a reasonable opportunity to raise issues of substantial importance without having to wait for management to schedule a meeting.[15]

Item 6: Issue Audited Report on Financial Impacts of IEA's Net Zero 2050 Scenario (FOR)[16]

BIS voted in favor of this proposal, despite the restrictiveness of the timeline, as we believe shareholders would benefit from greater insight into whether and how the IEA's Net Zero 2050 scenario would affect Exxon's financial position and long-term strategy.

As mentioned above, the IEA's recently published Net Zero 2050 Scenario (NZE2050) discusses a steep reduction in global demand for oil and gas over the next 30 years.[17] Notably it anticipates no investment in new supply projects. By 2035, the scenario would further be predicated on no sales of new internal combustion engine passenger cars, and by 2040, a global electricity sector that has already reached net-zero emissions.

While we expect that Exxon might require slightly longer than the six months proposed to undertake the necessary analysis, given the gap we currently see in Exxon's investment towards a low carbon future, and its clearly stated belief that long-term demand for oil and gas will continue to grow,[18] we believe that shareholders would benefit from a report reviewing the company's assumptions in light of the IEA scenario. As the proposal is advisory, we do not see support for it as unduly constraining on management. We encourage the company, should the proposal pass, to provide a reasonable deadline by which it would publish an audited report based on a meaningful evaluation of the scenario and the company's business assumptions.

Item 7: Report on Costs and Benefits of Environmental-Related Expenditures (AGAINST)[19]

BIS voted against this proposal because, on our assessment, the company's existing reporting adequately explains the tangible health and environmental benefits of its current policies and practices.

BIS did not support this proposal as the proponent contends that "[i]nsincere 'green' posturing and associated touting of hypothetical or imaginary benefits to public health and the environment may harm shareholders by wasting corporate assets, and deceiving shareholders and the public by accomplishing nothing real and significant for the public health and environment."[20] BIS believes that efforts already undertaken by Exxon to protect public health and the environment have been genuine and produced actual benefits to shareholders

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[14] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement", the shareholder proposal requested that the Board "take the steps necessary to amend the appropriate company governing documents to give the owners of a combined 10% of our outstanding common stock the power to call a special shareholder meeting without the need to get court approval."

[15] As stated in BIS' Proxy voting guidelines for U.S. securities, shareholders should have the right to call a special meeting in cases where a reasonably high proportion of shareholders (typically a minimum of 15% but no higher than 25%) are required to agree to such a meeting before it is called.

[16] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement", the shareholder proposal requested that the Board "issue an audited report to shareholders on whether and how a significant reduction in fossil fuel demand, envisioned in the IEA Net Zero 2050 scenario, would affect its financial position and underlying assumptions. The Board should summarize its findings to shareholders by January 31, 2022, and the report should be completed at reasonable cost and omitting proprietary information."

[17] International Energy Agency, "Net Zero by 2050".

[18] ExxonMobil, "Energy & Carbon Summary".

[19] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement", The shareholder proposal requested that, "beginning in 2021, ExxonMobil publish an annual report of the incurred costs and associated significant and actual benefits that have accrued to shareholders, the public health and the environment, including the global climate, from the company's environment-related activities that are voluntary and that exceed U.S. and foreign compliance and regulatory requirements. The report should be prepared at reasonable cost and omit proprietary information."

[20] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement".

and to society. Such benefits have been adequately explained in the company's existing reporting, and therefore, we do not see a benefit to shareholders from the proposed analysis and report.

Political Activities Disclosures

BIS regularly engages with companies to understand how their activities and disclosures related to political spending and lobbying are consistent with the company's overall strategy and long-term shareholder value creation. Direct corporate political activity, engagement on public policy matters and participation in industry associations can all help protect and/or promote the economic interests of companies. However, it also carries potential business and reputational risk which boards and management need to assess and manage.

Our views are articulated in our commentary on our perspective on corporate political activities. We believe that companies should provide accessible and transparent disclosure so that investors and other interested stakeholders can understand how a company's political contributions or affiliations are aligned with its public messaging on strategic policy positions. We believe companies should monitor the positions taken by trade associations of which they are active members for consistency on major policy positions and provide an explanation where inconsistencies exist. Exxon had three shareholder proposals addressing its political activities as discussed below.

Item 8: Report on Political Contributions (AGAINST)

BIS voted against this proposal as Exxon's existing political contributions disclosure meets our expectations.

The shareholder proposal requested that the company prepare a semi-annually updated report disclosing policies and procedures for making direct and indirect electoral contributions and expenditures with corporate funds. The proposal does not, however, include lobbying spending.[21]

Currently, the company meets our expectations for corporate political spending oversight and disclosure. It provides an itemized annual list for five years (2016-2020) of its U.S. corporate political contributions,[22] and discloses that in 2020 it contributed $300,000 in support of five national political organizations of state officials.[23] In addition, the company reports that it contributed over $240,000 in election support to over 200 state-level candidates and nine committees in six U.S. states.[24]

Further, Exxon discloses that as required by law for a federal contractor, it has not used corporate treasury funds to support any federal candidates, national political parties or other political committees, including Super political action committees (PACs).[25] At the federal level, Exxon has chosen not to use corporate funds or PAC funds for direct independent political expenditures, including electioneering communications.[26] The company reports that its PAC contributions for 2020 totaled over $940,000 and were disbursed to federal and state candidates and committees. It provides a list of its 2019-2020 PAC Contributions. Exxon provides a list of 26 U.S.-based trade associations to which, in 2019, it or its affiliates provided $100,000 or more in support, and a portion of that was reported to the company as being used for lobbying purposes.[27]

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[21] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement".

[22] ExxonMobil, "Political contributions and lobbying".

[23] See previous footnote.

[24] See previous footnote.

[25] See previous footnote.

[26] See previous footnote.

[27] See previous footnote

Regarding the oversight of its corporate political activities, the Board's Public Issues and Contributions Committee reviews Exxon's "policies, programs and practices on public issues of significance including their effects on safety, security, health and the environment" and reviews and provides advice on "the Corporation's overall contributions objectives, policies and programs."[28]

BIS believes that Exxon provides political spending disclosure that is commensurate with its peers, and that the company has enhanced this disclosure over time. For those reasons, support for this proposal was not warranted.

Item 9: Report on Lobbying Payments and Policy (FOR)

BIS supported this shareholder proposal because additional disclosure of the company's state and local level lobbying activities and expenditures, payments to trade associations and other tax-exempt organizations that conduct lobbying, and related oversight mechanisms would allow shareholders to better assess the company's management of these activities, as well as related risks and benefits.

The shareholder proposal requested that the company prepare an annual report disclosing the policies and procedures governing direct and indirect lobbying.[29] This is the ninth consecutive year that Exxon has received a shareholder proposal focused on the company's lobbying activities.

Although the company currently provides a list of trade associations where it paid dues of $100,000 or more and which used a portion of such payments for lobbying, the company does not provide a comprehensive list of its memberships in other tax-exempt organizations that may lobby on its behalf. Further, it neither provides the amount of payments made to each organization, nor does it separately report the portions used for lobbying purposes. In addition, while Exxon reports that it spent $971,000 in state and local lobbying expenses in 2020, the company does not provide further detail about those expenses.

Given the heightened scrutiny lobbying has garnered over the last several years, shareholders have a greater need for Exxon to demonstrate that its lobbying, both direct and indirect, is aligned with its public policy positions. Because of the gaps in Exxon's current reporting, we believe that additional incremental enhancements will serve to deepen the trust that shareholders have in the company, and eliminate any daylight that may be perceived between the company's stated purpose and its participation in the political process.

Item 10: Report on Corporate Climate Lobbying Aligned with Paris Agreement (FOR) [30]

Given the reputational risk to the company of misalignment in public positions on key strategic policy issues, we supported this proposal because we believe such a report would help investors' understanding of Exxon's climate-related lobbying and participation in trade associations.

Exxon discloses its principles regarding climate lobbying.[31] However, its lobbying positions and those of its trade association partners are not transparently in line with the Paris Agreement goals, and the company is increasingly falling behind its peers in the production of a climate lobbying alignment report. As a result, shareholders would benefit from more transparency about Exxon's lobbying positions on environmental rules

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[28] ExxonMobil, "Public Issues and Contributions Committee Charter".

[29] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement".

[30] ExxonMobil, "Notice of 2021 Annual Meeting and Proxy Statement", The shareholder proposal requested that the Board "conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, ExxonMobil's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal). The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks."

[31] ExxonMobil, "Political contributions and lobbying".

and regulations as it would allow for the ability to better assess how the company is approaching and mitigating climate-related risks.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.