Investment Stewardship Group

Voting Bulletin: Exxon Mobil Corporation

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**Exxon Mobil Corporation**
Market	United States
Meeting Date	27th May 2020
Key Resolutions[1]	**Item 1.2:** Elect Director Angela F. Braly **Item 1.4:** Elect Director Kenneth C. Frazier **Item 4:** Require Independent Board Chair
Board Recommendation	The company recommends shareholders vote FOR the re-election of these directors and AGAINST the shareholder proposal.
BlackRock Vote	**Against** Director Angela F. Braly for insufficient progress on TCFD aligned reporting and related action. **Against** Director Kenneth C. Frazier for insufficient progress on TCFD aligned reporting and related action, and for failure to provide investors with confidence that the board is

[1] The full meeting resolutions and agenda can be accessed at: https://corporate.exxonmobil.com/Investors/Investor-relations/Annual-meeting-materials#AnnualMeetingofShareholders.

	composed of the appropriate mix of skillsets and can exercise sufficient independence from the management team to effectively guide the company in assessing material risks to the business. **For** the Independent Chair proposal on account of our belief that the board would benefit from a more robust independent leadership structure given the concerns noted below.

Overview

The issue of climate risk and transition-readiness are paramount investment concerns for BlackRock as we consider the financial risks facing companies in the years ahead.

As we have discussed during our most recent conversations with Exxon Mobil Corporation (Exxon), we continue to see a gap in the company's disclosure and action with regard to several components of its climate risk management. We see this as a corporate governance issue that has the potential to undermine the company's long-term financial sustainability. Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues.

When effective corporate governance is lacking, we believe that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take. The directors in the boardroom, the independence of their voices, and the value of their collective experience are meaningful determinants of their ability to provide direction and leadership to management and to oversee and drive management's performance.

Background

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.

We have had a long history of multiyear, intensive engagements with Exxon on a wide range of nuanced governance issues, including board composition, board shareholder engagement, corporate strategy, and oversight of climate risk, among other topics. Over the last several years, we have intensified our focus with the company on the financial risks of a transition to a lower carbon economy, and on BlackRock's desire, as a long-term investor, for more fulsome information on the company's approach to overseeing and managing these risks.

This is in line with our 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.

We have centered our engagements with Exxon around our broader request to companies and, as a carbon intensive company, to Exxon specifically, to align reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). In response to an investor vote, Exxon released its Energy and Carbon Summary in 2018 which follows the four pillars of the TCFD framework. However, despite yearly incremental adjustments, we do not believe that full adherence with the fourth pillar of the TCFD has been achieved. We continue to have several areas of significant concern:

I. **GHG reduction targets**

Our first area of concern is around Exxon's existing greenhouse gas (GHG) reduction targets. Despite discussions since last May regarding BIS' expectation that Exxon expand the scope and accelerate the timeframe of its GHG reduction targets, the company does not have new targets in place and Exxon's methane reduction goals are set to expire at the end of 2020. In our most recent engagement, the company informed us that it is in the process of developing future targets. We look forward to reviewing the new targets when published, and to understanding the company's plan for achievement and process for future reassessment, if any.

However, we believe that a company of Exxon's size and scope should have conveyed a plan to shareholders sufficiently in advance of the expiry of the 2020 targets to allow them a line of sight into the company's forward vision. In our assessment, the company is not conveying a sense of urgency proportionate to the risk identified. Additionally, while we acknowledge Exxon's actions in setting the goal for a 10% GHG emissions intensity reduction at Imperial operated oil sands by 2023, these limited intensity targets cover less than 10% of Exxon's sales and other operating revenue.[2] We see Exxon's global peers setting more meaningful targets across their businesses designed to align with achieving the goals of the Paris Agreement.

II. Disclosure around the company's anticipated degree of warming under its stated strategy

As we have stated publicly in our support of the TCFD framework, BIS expects companies to disclose not only the outcomes of their analysis under different climate scenarios, but a credible strategic plan to operate under a Paris-aligned scenario in which the average rise in global temperatures stays at or below 2 degrees Celsius.[3] In our view, this includes GHG emissions reduction target-setting, disclosure on a company's anticipated transition to a lower carbon economy (i.e. plans to align the company's business model with the Paris Agreement) and disclosure on the global warming path a company is on (e.g. based on the targets the company has selected, it anticipates X degree of warming).

Exxon has conducted scenario analysis and believes that it will remain competitive under any future climate scenario. The company is investing in carbon capture technology and biofuels, areas where it believes it can be competitive, but has chosen not to take specific action in diversifying its portfolio towards renewables. We believe this decision is squarely within the company's discretion in determining its own strategy. That being said, we believe that Exxon and its peers should, under these circumstances, disclose the degree of warming they anticipate under their stated strategy and why that path is in the best interests of long-term shareholders.

III. Failure to disclose Scope 3 emissions

A related concern is Exxon's position not to disclose Scope 3 emissions based on the company's stated rationale that these emissions are attributable to the consumption of Exxon's products, and can therefore be misleading. While we recognize the practices in relation to Scope 3 measurement and reporting are still evolving – and remain fraught with complexities – we believe that initiating such reporting is an important step in measuring material long-term business risk. Companies can, in this way, help investors understand their exposure to changing demand and regulation which may result in reduced carbon use. During our engagements, we asked Exxon to consider disclosing its Scope 3 emissions. However, the company has not indicated whether it intends to change its current decision to keep this information private. As an energy major, Exxon's decision not to disclose this information puts it at odds with its global peers who not only disclose Scope 3 emissions but have made commitments to lower them.

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[2] This estimate is derived from Exxon's and Imperial Oil's most recent 10-Ks, and by using the CAD to USD FX rate = 0.72 CAD to USD, please see https://www.sec.gov/ix?doc=/Archives/edgar/data/34088/000003408820000016/xom10k2019.htm, and https://www.sec.gov/ix?doc=/Archives/edgar/data/49938/000119312520050268/d849034d10k.htm#tx849034_3

[3] Please see BlackRock Investment Stewardship's approach to engagement on the TCFD and the SASB aligned reporting, https://www.blackrock.com/corporate/literature/publication/blk-commentary-tcfd-sasb-aligned-reporting.pdf

IV. Evidence of independent board oversight and leadership

We look for demonstrable board leadership as gleaned through our engagement with board members, corporate disclosures, and stated outcomes. In the case of Exxon, we have not seen independent leadership of the board in either our direct engagement with board members, or through outcomes that signal the company is approaching these risks with the sense of urgency embraced by the market, investors, and the company's peers.

Furthermore, we posit that Exxon may benefit from the addition of an individual with more direct industry experience to the board. We arrived at this position given the slow and incremental progress the company has made on increased transparency of climate risk management, despite our extensive history of engagements and our votes against multiple directors over the last four years.

As a result, this year we have voted against those directors whom we hold most accountable for the disconnect we have observed. We also voted in favor of the shareholder proposal seeking an Independent Chair as this failure in governance shows that the board needs to try a different approach. While, in general, we are supportive of a structure with a Lead Independent Director, in the case of Exxon, it is our view that the structure is not currently working, and that the board must find a way to demonstrate greater independence of thought in exercising its advisory role.

The 2020 AGM

Exxon received a total of six shareholder proposals covering issues ranging from the physical risks of climate change, political activities, an independent chair role, as well as other governance items at its 2020 Annual General Meeting (AGM). The ballot also included several management proposals including director re-election, compensation and ratification of the company's auditors. BIS has taken voting action as described below.

Rationale for BlackRock vote

Item 1.2: Elect Director Angela F. Braly

Against *Director Angela F. Braly for insufficient progress on TCFD aligned reporting and related action.*

According to Exxon's disclosures, the company's Public Issues and Contributions Committee oversees operational risks such as those relating to employee and community safety, health, environmental performance, including actions taken to address climate-related risks, security matters, and reviews and provides advice on objectives, policies and programs related to political and other contributions.[4] Ms. Braly is the Chair of Public Issues Committee, and as such, BIS holds her accountable for lack of progress in driving greater action on climate risk in line with TCFD guidance, SASB recommendations, and BIS' feedback over several years.

Item 1.4: Elect Director Kenneth C. Frazier

Against *Director Kenneth C. Frazier for insufficient progress on TCFD aligned reporting and related action, and for failure to provide investors with confidence that the board is composed of the appropriate mix of skillsets and can exercise sufficient independence from the management team to effectively guide the company in assessing material risks to the business.*

We look to the Lead Independent Director and the Nominating and Governance Committee Chair for oversight of board composition and independence. This includes ensuring that the board is made up of directors with the right mix of skillsets and experience and who have sufficient leeway to exercise judgment that is independent

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[4] Please see Exxon's 2020 Proxy Statement for more information: https://corporate.exxonmobil.com/-/media/Global/Files/investor-relations/annual-meeting-materials/proxy-materials/2020-Proxy-Statement.pdf.

from management to provide unfettered guidance to them. In this instance, we do not believe that the Exxon board has demonstrated that it is exercising its independent judgment in advising and overseeing management in assessing and disclosing material risks to the business relating to climate. In addition, we believe that having more directors with oil and gas industry experience would bolster the board's ability to act independently. As such, we are holding Mr. Frazier as the Lead Independent Director and Chair of the Nominating and Governance Committee, accountable. We also hold Mr. Frazier, as Lead Independent Director, responsible for lack of progress in driving greater action on climate risk in line with TCFD guidance, SASB recommendations, and BIS' feedback over several years.

We supported all other directors and routine management items on the 2020 ballot.

Shareholder Proposals

We voted in Favor of the following proposal:

Item 4: Require Independent Board Chair

***For** the Independent Chair proposal on account of our belief that the board would benefit from a more robust independent leadership structure given the concerns noted below.*

The non-binding shareholder proposal requests that the company establish an Independent Board Chair position in place of the present Lead Independent Director structure by appointing one of the independent members of the board to the Chair position. The Independent Chair proposal would be phased in for the next CEO transition.

BIS typically defers to the board to establish the appropriate structure of governance. Our governance and voting guidelines do not normally necessitate an Independent Chair so long as there is evidence of strong independence in the boardroom that is facilitated by a Lead Independent Director. We acknowledge that the company has strengthened its disclosures around the stated roles and responsibilities of the Lead Independent Director. We also recognize that Mr. Frazier, Chair of the Nominating and Governance Committee, stepped into the Lead Independent Director Role this year. Nonetheless, we remain concerned about the board's responsiveness to shareholder feedback and concerns regarding climate risk management, and do not have confidence that an enhanced role on paper will lead to a demonstrable increase in independent leadership.

This concern is also reflected in the fact that BIS took voting action in 2017 and 2019, including voting against both Mr. Frazier and former Lead Independent Director Steven Reinemund. However, we have still not seen the substantive action we would expect given the material climate risks facing the company, and the concern expressed to the company by investors, including BlackRock.[5] In our view this lack of progress on robust GHG emissions reduction target setting and disclosure is a symptom of board independence issues. This now warrants an escalation in our approach, to encourage more independent leadership in this particular boardroom.

Appendix

We voted against the remaining five shareholder proposals for the following reasons:

Item 5: Reduce Ownership Threshold for Shareholders to Call Special Meeting

BIS determined that this proposal is unnecessary as the company already has the right to call a special meeting at an acceptable threshold under BIS' voting guidelines. The company additionally amended its bylaws such that shareholders holding at least 15% of shares outstanding may call a special

[5] We acknowledge the incremental steps the company has taken in putting out revisions to its reporting, changing its policy on board engagement, and updating its political spending guidance, but as stated above, expect greater action on target-setting and conveying the justification for company's approach relative to its peers.

meeting without the requirement for a court petition as set forth in New Jersey law, the state where the company is incorporated.

Item 6: Report on Costs & Benefits of Climate-Related Expenditures

The lead filer of this proposal co-founded a publicly traded mutual fund that "advocated as a corporate shareholder against climate alarmism during the 2000s" and co-leads a group known as "Burn More Coal." The intentions of this filer are not in line with BlackRock's stated positions on climate risk and the need for an orderly transition to a lower carbon economy. We therefore voted against this proposal seeking a board report on climate-related expenditures.

Item 7: Report on Risks of Petrochemical Operations in Flood Prone Areas

The company made enhancements to its 2020 Energy and Carbon Summary with regard to its processes and procedures for overseeing the physical risks of climate change. These additional disclosures, along with the details Exxon provided regarding its experience planning for, and operating in challenging environments, assist in allaying the concerns BIS expressed directly to Exxon and through our vote in support of the shareholder proposal on the Risk of Petrochemical Operations in Flood Prone Areas at the 2019 AGM. We are satisfied for the time being by these expanded disclosures, and therefore voted against this proposal.

Items 8 & 9: Report on Political Contributions and Lobbying Payments and Policy

The company's disclosures align with BIS' perspective on corporate political activities providing insight into the board's role in overseeing this risk. The company also publishes a Worldwide Giving Report[6] providing greater insight into its political spending activities and philosophy. Exxon's current disclosures therefore meet our baseline expectations and we have decided to support the company on this issue at this time. We have separately asked the company to provide more detailed disclosures regarding the company's trade association expenditures. We believe that the company will enhance its disclosure in the coming year.

[6] For more information, see https://corporate.exxonmobil.com/-/media/Global/Files/worldwide-giving/2018-Worldwide-Giving-Report.pdf.