Carbon Tracker Report Debunks ExxonMobil's Denial of Carbon Asset Risks

Exxon underperforms vs. S&P 500 by 8% for past five years due to overspending on risky replenishment of reserves

OAKLAND – September 10, 2014 – Today, the Carbon Tracker Initiative (CTI) issued a report finding that ExxonMobil (XOM) – the largest U.S. energy company – is significantly underestimating the risks to its business model from investments in higher cost, higher carbon reserves; increasing national and subnational climate regulation; competition from renewables; and demand stagnation, among other factors.

The CTI analysis rebuts a March 2014 Exxon report on the risk to the company of carbon-related stranded assets. Exxon released its March report in response to a shareholder resolution filed by sustainable wealth manager Arjuna Capital and the nonprofit As You Sow, seeking greater transparency for investors into how ExxonMobil plans for a future where climate regulation and accompanying market forces may strand a significant portion of its assets.

In its rebuttal, CTI essentially concluded that **the dinosaur has no clothes.**

In endorsing the CTI report, As You Sow and Arjuna Capital highlight that Exxon has recently underperformed the S&P 500 despite persistently high oil prices. As noted by the report, one reason for this underperformance is Exxon's deteriorating return on capital, which has been driven in large part by its high cost projects. By the end of July 2014, XOM had undershot the broader market by 8% over five years, and by approximately 7% over the three and one year time periods. Significantly, Exxon has only delivered returns equivalent to 60% of what of the S&P 500 did in the past five years.

"As the Carbon Tracker analysis demonstrates, Exxon's low returns over the past five years are the result of a fundamental shift in oil market dynamics – changes which Exxon ignores at its peril," said Danielle Fugere, President of As You Sow. "The one constant is that markets change. Failure to recognize and adjust to such changes has led to storied companies, including Kodak, falling under their own weight and failure to adapt. As investors, we hope this will not be the case with Exxon."

"Exxon's cost profile is headed in the wrong direction as they invest in high cost unconventional assets. This flawed strategy has contributed to a significant deterioration in returns over the last 5 years – essentially reversing a 40-year trend of outperformance," said Natasha Lamb, director of equity research and shareholder engagement at Arjuna Capital. A fossil fuel volume play in the face of climate risk is faulty logic. As investors, we prefer Exxon protect value by diverting capital from high risk, high carbon projects to low carbon alternatives and return money to shareholders through increased dividends and share buybacks."

In its report, Carbon Tracker also emphasizes that the Exxon report does not consider a low carbon scenario in planning its capital allocation. Though Exxon has carried out a range of stress testing, it has failed to stress test what happens when governments react appropriately to limit climate disruption to agreed international targets. "It's only a question of time before the impacts of increasing government action result in demand below Exxon's expectations. For Exxon and other oil producers, such risk exists because of the potential for global oil demand to begin declining within the next 10-15 years, even without robust climate policies," says the report.

Recognizing that market and regulatory forces are creating a growing risk to fossil fuel companies, and that, collectively, these companies are continuing to spend over $700 billion per year in finding and developing new fossil fuel reserves, shareholders initiated a campaign in 2013 seeking more information on the potential for future stranding of company assets. As You Sow and Arjuna Capital are part of this coordinated investor engagement called *The Carbon Risk Initiative.* This group, supported by CERES and CTI, wrote to the world's 45 largest companies in the oil and gas, coal, and electric power sectors, asking them to assess their exposure to carbon asset risk. Like Exxon, the responses received generally indicate that these companies are failing to acknowledge the growing risks of conducting business as usual, including pursuing additional fossil fuel reserves at increasingly high costs.

As the 2015 shareholder season nears, shareholders will continue to seek more transparency and responsiveness from the largest fossil fuel companies on their carbon asset risk. Short term investor objectives include obtaining more detailed information on companies' carbon asset risk and how they quantify and measure that risk, from carbon pricing, to break even commodity pricing, to deployment of clean energy potential. Investors are also seeking responsiveness from companies in avoiding or reducing high carbon/high cost projects that create undue risk, instead focusing on shareholder value and/or movement toward lower cost/cleaner energy projects.

As the Carbon Tracker report summarizes, "A strategy focusing on lower cost projects, stricter capital discipline and increased distribution to shareholders may boost group return and lower risk," and they further suggest a "shrink to grow strategy" that has benefitted ConocoPhilips. In the meantime shareholders will be focusing on their own portfolios and the degree to which they are invested in assets with high carbon risk.

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Arjuna Capital is the sustainable wealth management platform of Baldwin Brothers Inc., an SEC-registered independent financial advisory firm established in 1974. For more information visit www.arjuna-capital.com.

As You Sow is a nonprofit organization that promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. For more information visit www.asyousow.org.

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