COALITION UNITED FOR A RESPONSIBLE EXXON (CURE)

Recommendations to Improve ExxonMobil Corporation

CURE

ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

The Coalition United for a Responsible Exxon ("CURE") represents 135 respected institutional and private investors from across the international investment community, whose combined portfolios contain over $2.5 trillion in assets under management.

We and other shareholders are extremely disappointed with Exxon Mobil Corporation's ("ExxonMobil" or the "Company") returns: The Company, at a market capitalization of $245 billion,[1] is half the size of its peak in 2007. According to its own figures, an investment in the Company's shares has underperformed against its industry peers and the S&P 500 over both a five-year and a ten-year time horizon, in each case by a significant margin.[2] ExxonMobil bondholders have seen the Company's credit rating downgraded twice in a year by Moody's to Aa2, with its S&P rating a notch lower at AA-, as a result of the Company's increased leverage. Both agencies have also changed their outlook with respect to the Company from stable to negative.

CURE believes that the deterioration in ExxonMobil's performance over the past decade is because of two main, related factors. The first is the decision of the Company's Board of Directors (the "Board") to sanction high cost, low return investments and acquisitions that depressed ExxonMobil's overall return on capital relative to its peers. The second is the Board's failure to appreciate the cyclicality of oil and gas prices, preferring to invest on the assumption that the high oil prices of 2010-2014 were the new normal. CURE is concerned that a Board with little experience of cyclical industries does not have sufficient confidence or expertise to challenge a powerful CEO/Chairman over such investments. Our view is that this combination of factors resulted in value destruction and shareholder returns far inferior to ExxonMobil's peers.

The risk for shareholders now, we believe, is that this flawed leadership mentality endures and will result in future mistakes, depressing shareholder returns further. There is another major risk, climate change, which could blindside ExxonMobil's management and exacerbate these two causes of shareholder value destruction if it adopts the same business-as-usual narrative as it has in the past. ExxonMobil's limited disclosure on physical climate risks and its responses to shareholders, news organizations, and climate organizations are disturbing as both suggest it underestimates the scale of those risks. Major moves in oil prices are normally driven by unexpected changes in demand or supply. ExxonMobil has a long investment horizon that overlaps with the timeline of achieving climate targets by global governments. The Board's apparent failure to understand that the energy transition will lead to falling demand over the next decade means it could invest in the wrong assets once again unless the Board challenges the executive management's apparent view that more investment is needed. In our view, the Company's proposed strategy outlined at the Investor Day on March 3, 2021,[3] is a reiteration of the entrenched business-as-usual view that failed the Company in the 2010s.

CURE has prepared a key list of recommendations to encourage the Company to improve its governance and seize the opportunity to develop a new strategic direction in line with the Paris Agreement on Climate Change and reduce the risks that threaten the Company. These recommendations offer an alternative path: to serve all of ExxonMobil's stakeholders responsibly and enhance shareholder value in the emerging clean energy economy.

ExxonMobil needs to avoid the mistakes of the past but it also needs to avoid the pitfalls that lie ahead. The latter are likely to include those related to the energy transition. ExxonMobil needs a strategy that is aligned with the Paris Agreement, underpinned by ambitious financial and climate targets, based on realistic oil demand scenarios, and supported by well-aligned corporate governance, capital allocation, and climate policy advocacy. The importance of setting emissions targets, and especially Scope 3 targets, is not just that they will lower carbon emissions, but that it will force management to be more disciplined in its approach to strategic decisions and capital allocation, forcing it to only invest in relatively advantaged projects, therefore restoring industry-leading returns even if production declines.

This new strategy will need bold leadership from the Board in challenging investment decisions put forward by Company management. Failure to follow these recommendations risks repeating the mistakes of the past, which would likely lead to a further decline in investor returns.

ExxonMobil will host its annual shareholder meeting in May. Shareholders will have an opportunity to vote on the composition of the Board and other proposals. This is the moment when shareholders can decide to elect bold leadership capable of implementing innovative recommendations such as these, or to continue on the current trajectory.

ExxonMobil's 2021 AGM and proxy statement includes several proposals initiated by shareholders, rather than by management, that address many of CURE's concerns. Naturally, ExxonMobil opposes them.[4] The members of CURE intend to vote in favor of the following proposals in particular for the reasons set forth herein:

Item 4: Independent Chairman

Item 6: Report on Scenario Analysis

Item 10: Report on Climate Lobbying

In summary, the Company's current approach, in CURE's view, underestimates the scale of the energy transition that is driving international oil and gas companies to reassess their futures. CURE's view is that the strategic direction outlined in this report is a better way for ExxonMobil to ensure its commercial future and redefine its role in climate change.

CURE's recommendations are summarized below:

(1) Strengthen Governance to avoid repeating past mistakes:

a) Split the joint CEO/Chair position ***(Proposal 4)***

b) Broaden Board and management expertise by appointing multiple new directors and senior executives with energy and climate experience

c) Align CEO and executive compensation more directly with total shareholder return and GHG reduction performance metrics

(2) Establish and disclose a plan in line with the Paris Agreement to prepare for the Energy Transition:

a) Set an absolute enterprise-wide net-zero target by 2050, including interim short- and medium-term targets and a detailed decarbonization strategy for achieving targets

b) Develop a climate lobbying position aligned with the Paris Agreement ***(Proposal 10)***

c) Provide scenario analysis disclosure, including carbon price assumptions and asset-level detail ***(Proposal 6)***

d) Provide regular updates on the Company's compliance with climate targets

CURE ANALYSIS OF EXXONMOBIL'S RECENT PERFORMANCE, KEY ISSUES AND RECOMMENDATIONS

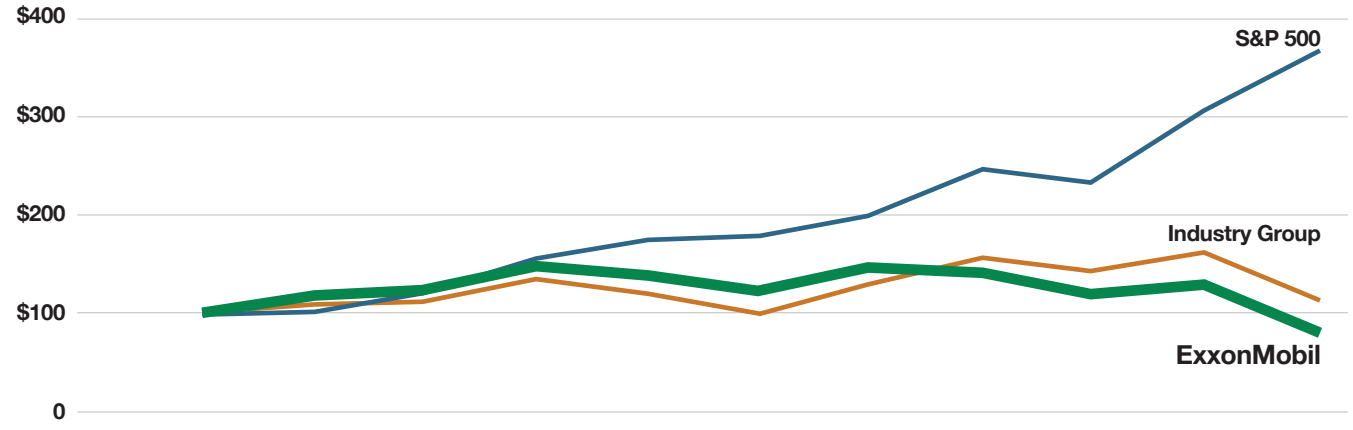
ANALYSIS OF EXXONMOBIL'S RECENT PERFORMANCE

Declining Share Price and Credit Ratings

Once the largest public company in the world, ExxonMobil's current market capitalization of $245 billion is half the size of its peak in 2007. The Company has dropped out of the top 10 of the S&P 500 and was dropped from the Dow Jones Industrial Index. According to the Company's own figures, an investment in the Company's shares has underperformed against its industry peers and the S&P 500 over both a five-year and a ten-year time horizon, in each case by a significant margin (see Figure 1).

Figure 1: ExxonMobil Ten-Year Cumulative Total Returns[5]

(value of $100 invested at year-end 2010)

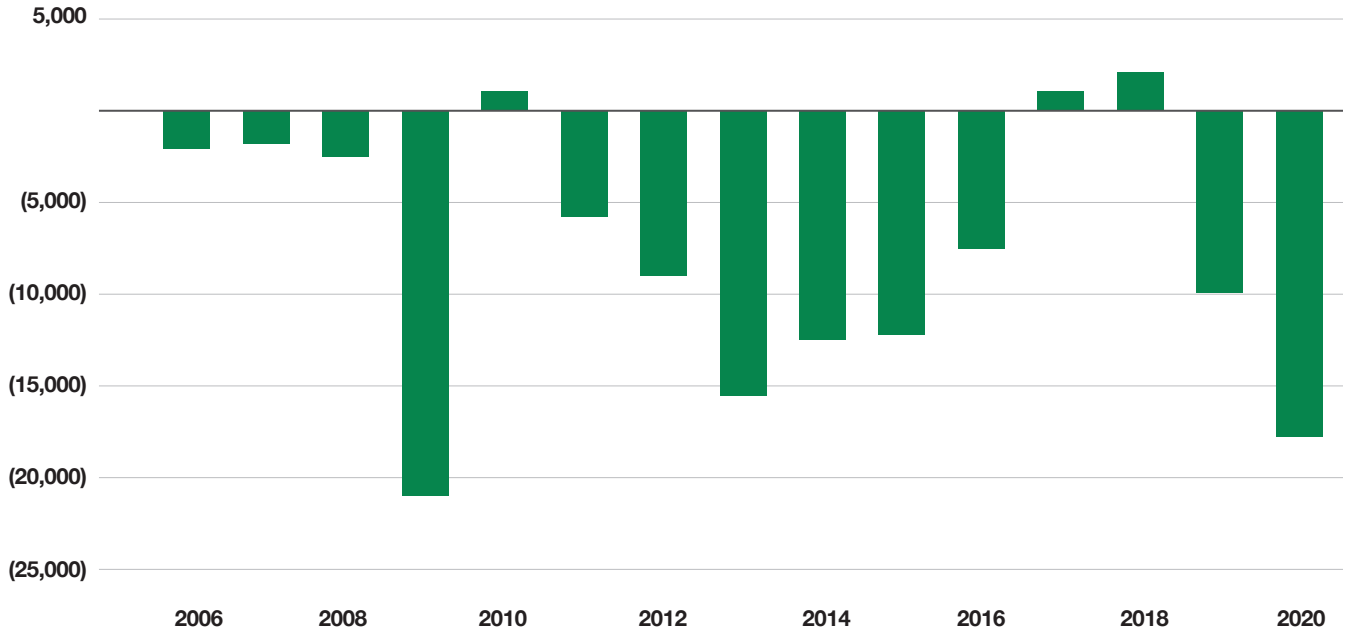


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ExxonMobil	100	119	124	149	140	123	147	141	120	129	82
S&P 500	100	102	119	157	178	181	202	247	236	310	367
Industry Group	100	111	114	135	123	102	132	157	147	162	112

Fiscal years ended December

Cash flow, revenues, and profits are down, large projects have been announced and then abandoned or written down, dividends are paid with borrowed cash, debt has risen, and plans for new cash from asset sales have failed to materialize. Oil price rallies could present a positive short-term outlook for ExxonMobil, but cash generation at the Company has not covered capital spending and dividend payments in recent quarters. In early 2021, ExxonMobil reported its first annual loss ever, all while paying $15.2 billion to shareholders – a payout funded by borrowing money and selling assets.[6] ExxonMobil's annual cash flow net of shareholder distributions from 2006 to 2020 shows repeated failure to cover shareholder distributions with core business operations. Of the 20 years analyzed, only three were cash flow positive (see Figure 2).

Figure 2: ExxonMobil Free Cash Flow minus Shareholder Distributions (millions USD), 2006-2020[7]



While there are similar cash flow struggles for other oil majors, ExxonMobil is notable in its extremes, with a $17.8 billion deficit in 2020 after shareholder distributions; Chevron is a distant second at $9.5 billion. When looking at free cash flow as a share of payouts, ExxonMobil's cash covered only 56% of its $200 billion in dividends and buybacks from 2011 to 2020.[8] The cash generation of ExxonMobil's business is far below the payments the Company is making to its shareholders, and unlike many of its peers, ExxonMobil has maintained and grown its dividend payment despite this weak underlying performance.[9]

Fitch, Standard & Poor's, and Moody's have all taken negative credit actions. ExxonMobil bondholders have seen its credit rating downgraded twice in a year by Moody's to Aa2, with its S&P rating a notch lower at AA-, as a result of the Company's increased leverage. Both agencies have a negative outlook for ExxonMobil, in large part driven by this heavy reliance on debt to pay the dividend.[10]

Greatest Deterioration in ROCE of All Oil Majors

Alongside write downs and asset sales, ExxonMobil's Return on Capital Employed (ROCE), the standard adopted by the Company, has been dropping at a higher rate than peers. Lee Raymond, ExxonMobil's Chairman and CEO from 1993-2005, described ROCE as the "premiere number by which oil corporations should be judged."[11] The Company's 2019 annual report further goes on to state:

> *"The Corporation... views it [ROCE] as the best measure of historical capital productivity in our capital-intensive, long-term industry, both to evaluate management's performance and to demonstrate to shareholders that capital has been used wisely over the long term."*[12]

When benchmarked against its peer group with rolling 10-year ROCE averages for the past few years, ExxonMobil's absolute decline is concerning (see Table 1).

Table 1: Comparison of Rolling 10-year ROCE Averages, 2017-2020[13]

YEAR	XOM	CVX	TOT	RDS	BP
2017 10 year average	17.6%	12.6%	9.1%	9.2%	7.0%
2018 10 year average	15.1%	10.8%	7.9%	8.0%	5.5%
2019 10 year average	14.1%	9.9%	7.8%	8.1%	4.8%
2020 10 year average	11%	7.9%	6.3%	6.4%	4.2%
Absolute Decline	**-6.6%**	**-4.7%**	**-2.8%**	**-2.8%**	**-2.8%**

Weakening Upstream Performance

Overall earnings have declined significantly over the last ten years. Earnings deterioration has been particularly pronounced over the last five years. While earnings deterioration has been enterprise wide, it has been concentrated in ExxonMobil's Upstream operations, particularly its U.S. Upstream portfolio. The Company has reduced its exploration expenditures over the last 10 years, favoring Downstream and Petrochemicals and reducing the Upstream allocation but shielding the U.S. portfolio from the steepest cuts.

While each of ExxonMobil's segments (Upstream, Downstream, Chemical) saw reduced earnings in the 2016 to 2020 period relative to the prior five years, the Upstream segment experienced the largest earnings deterioration. From 2011 to 2015, the Upstream portfolio earned on average $25 billion per year, or 75% of total earnings worldwide. Since 2016 the annual Upstream earnings were $4 billion per year, or 55% of total earnings.

U.S. Upstream earnings in the 2016 to 2020 period collapsed. Overall earnings were negative $14 billion. Only in one year, 2017, did the U.S. Upstream segment produce meaningfully positive results, which were driven by changes in U.S. tax law.[14]

Problematic Large Scale Portfolio Investments

Over the decades ExxonMobil has built the Company on a long series of large, successful mega-projects, winning the Company a reputation as a best-in-class operation. Over the last 10 years, its successful image was challenged by several high-profile projects that have either failed in the development stage or floundered, depressing profits and losing share value.

Oil Sands Canada:

ExxonMobil, through its subsidiary Imperial Oil in Canada, has made a series of acquisitions to establish a 4 billion barrel oil sands reserve. ExxonMobil's reserve levels have become a point of controversy. IEEFA published several analyses on Canadian oil sands development.[15,16] These reports raise questions about the validity of ExxonMobil's claim that it held 3.5 billion barrels of economically extractable oil sands reserves.[17]

In February 2017, ExxonMobil de-booked 3.5 billion barrels of its oil sands reserves.[18,19] The events surrounding the de-booking triggered a shareholder lawsuit.[20] ExxonMobil's disclosure at the time suggested that the reserves would be rebooked when market conditions improved. The Company did rebook the assets with the release of its 2018 annual report in February 2019.[21] After several years of oil company sell-offs in the region, in August 2019, Koch Brothers announced the sale of its oil sands assets for an undisclosed price.[22,23] In February 2020, Teck Resources' Frontier Oil Sands project was cancelled due to weak market conditions.[24]

ExxonMobil raised investor concerns with its failure to declare any impairments in its Q2 2020 filing at a time when most of the companies in the industry were doing so.[25] Recent objections focus on the size and value of the Company's shale oil and other holdings.[26] The Company acknowledged at the time the potential for a 20% write-down in its reserves in 2020 if low prices continue through the second half of the year.[27] The Company announced the de-booking of oil sands reserves for the second time with the release of its 2020 10-K annual report.[28] New development in the Canadian sands is all but frozen due to weak market conditions. Recently, the Company announced that 300 employees would be laid off from its Canadian operations.[29]

Permian Basin:

ExxonMobil has centered much of its growth story on the Permian Basin, the largest oil and gas producing region in North America. In early 2017, ExxonMobil's CEO Darren Woods announced that the Permian would be among the Company's short-cycle cash generators over the next three years. But ExxonMobil's heavy investment in the Permian Basin has yet to perform to expectations.

IEEFA has published several reports that cover ExxonMobil's efforts in the Permian Basin, including one directly related to the Company's performance and future prospects and two related to current market issues in the basin.[30,31] IEEFA noted that the cash had not materialized during the period set out by Woods in his March 2017 announcement.[32]

By late 2019, the Company had abandoned its quick-cash scenario, and an announcement was made that the Permian Basin was going to be a long-term investment with no precise revenue projections or timeframes.

ExxonMobil has nonetheless designated the Permian a "key growth project"[33] and currently targets production of 700,000 barrels per day by 2025 – nearly double last year's level – yet a sharp reduction from a goal the Company set in 2019 of producing 1 million barrels per day by 2024.[34]

Additional Write-downs

In 2009, the Company bought gas assets from XTO Energy. By 2017, the Company had to write off $2 billion.[35] Most recently, the Company booked an impairment charge of $19.3 billion on assets in North America and Argentina.[36]

KEY ISSUE 1: POOR GOVERNANCE

CURE believes that the deterioration in ExxonMobil's performance over the past decade is due to two main factors:

1. The Board's sanctioning of high cost, low return investments, along with acquisitions that depressed overall return on capital relative to peers; and
2. The Board's failure to appreciate the cyclicality of oil and gas prices, preferring to invest on the assumption that the high oil prices of 2010-2014 were the new normal.

CURE is concerned that a Board with little experience of cyclical industries does not have sufficient confidence or expertise to challenge a powerful CEO/Chairman over such investments. Our view is that this combination of factors resulted in value destruction and shareholder returns far inferior to ExxonMobil's peers.

The risk for shareholders now, we believe, is that this mentality endures and will result in future mistakes, depressing shareholder returns further.

There is another future risk – climate change – which could blindside ExxonMobil's management if it adopts the same business-as-usual narrative as it has in the past. ExxonMobil's limited disclosure on physical climate risks and its responses to shareholders, news organizations, and climate organizations is disturbing as it suggests that they underestimate the scale of those risks. Major moves in oil prices are normally driven by unexpected changes in demand or supply. The Board's apparent failure to understand that the energy transition will lead to falling demand

means it could invest in the wrong assets once again unless the Board challenges executive management's apparent view that more investment is needed.

Narrow Director Experience

In our view, ExxonMobil's Board lacks the specific expertise and functional independence to guide the Company through the current and future challenges facing the Company.

ExxonMobil's independent directors have limited experience in the Company's core business areas – energy and oil and gas. Wan Zulkiflee, added to the Board in 2021, is the only independent Board member who has previous oil and gas experience, but this is limited to a national oil company (NOC). Zulkiflee is also the only non-U.S. resident on the Board, which CURE considers to be a weakness, given the diverging global regulatory approaches to the energy transition.

ExxonMobil's independent directors also seemingly have limited experience for dealing with the changes necessary for navigating the energy transition and a decarbonizing global energy economy disrupting the Company's core business (see Table 2).

Table 2: ExxonMobil's Independent directors.[37] CURE notes that Weldon is not standing for re-election.[38]

DIRECTOR	PRIMARY OCCUPATION	NATIONALITY	ENERGY	OIL & GAS	CLIMATE	PRIMARY INDUSTRY
Michael J. Angelakis	Chairman and CEO of Atairos Group Inc.	US	–	–	–	Telecom; Financial
Susan Avery	President Emerita, Woods Hole Oceanographic Institution	US	–	–	X	Academia
Angela Braly	Former Chair & CEO, Well Point	US	–	–	–	Health Care
Ursula Burns	Chair of VEON; former Chair & CEO of Xerox	US	–	–	–	Telecom; Information Technology
Ken Frazier	Chair & CEO of Merck	US	–	–	–	Pharmaceuticals
Joseph Hooley	Former Chair & CEO, State Street Corp.	US	–	–	–	Financial
Steven Kandarian	Former Chair & CEO, MetLife	US	–	–	–	Insurance
Douglas Oberhelman	Former Chair & CEO, Caterpillar	US	–	–	–	Industrials
Samuel Palmisano	Former Chair & CEO, IBM	US	–	–	–	Information Technology
Jeffrey W. Ubben	Founder, Portfolio Manager, and Managing Partner, Inclusive Capital Partners	US	–	–	X	Financial
William C. Weldon	Former Chair & CEO, Johnson & Johnson	US	–	–	–	Pharmaceuticals
Wan Zulkiflee	Non-Executive Group Chair of Malaysia Airlines and Malaysia Aviation Group	Malaysia	–	X	–	Transportation

Misaligned Executive Compensation

Historically, ExxonMobil has a significant proportion of management's total remuneration linked to direct growth metrics. Compared to peers, ExxonMobil lacks detailed disclosures on the variable pay metrics used for executive compensation.[39] It is estimated that for 2019, direct growth metrics accounted for 30% of performance share grants. This included categories such as "strengthening upstream portfolio," "upgrading downstream production," and "leading in chemical growth."[40]

To break with its current failing strategy that has led to major shareholder value loss, ExxonMobil needs to redirect management's incentives away from growing high-carbon assets and exposing itself to further asset stranding risk and instead prioritize only the most efficient and lowest cost assets, and reducing its climate impacts.

Employee Dissatisfaction

There is a noticeable gap between the satisfaction of ExxonMobil employees and employee attitudes at its peers (see Table 3). Only 32% of ExxonMobil employees view the CEO positively and only 20% see a positive business outlook. These ratings are less than half of those in other major oil and gas companies.

ExxonMobil's employee dissatisfaction problems will only grow as the oil and gas industry struggles in attracting new talent due to the perception as an environmental enemy and industry in decline.[41] Attracting the best and brightest talent will be an imperative to find the creativity and ingenuity needed to find success in the energy transition.

Table 3: Glassdoor Employee Reviews of Oil and Gas Majors[42]

	GLASSDOOR EMPLOYEE REVIEWS			
	POSITIVE BUSINESS OUTLOOK	CEO APPROVAL	RECOMMEND TO A FRIEND	CULTURE & VALUES (1-5)
ExxonMobil	**20%**	**32%**	**46%**	**2.7**
bp	44%	71%	76%	3.7
Chevron	47%	89%	81%	4.0
ConocoPhillips	52%	87%	84%	4.1
	51%	93%	80%	4.0
TOTAL	60%	88%	89%	3.6

CURE RECOMMENDATIONS TO ADDRESS POOR GOVERNANCE:

a) Split the joint CEO/Chair position

CURE's view is that ExxonMobil's current Board has not done enough to challenge strategic decisions made by a powerful combined CEO/Chair position that have harmed the Company financially over the past decade and left it unprepared for a tumultuous future regarding climate change risks. The issue of separating the CEO and Chair position has been addressed at previous Company shareholder meetings. A substantial percentage of shareholders have previously voted in favor of a split, without reaching a majority. Given the demands that a strategic realignment of the Company will impose on senior management, we believe that this is an even more pressing issue than it has been in the past, and the reform should be implemented.

> *"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."*
>
> BlackRock, May 2020, supporting the CEO/Chair split proposal[43]

THE MEMBERS OF CURE INTEND TO VOTE IN FAVOR OF PROPOSAL 4 AT THE ANNUAL MEETING

b) Broaden Board expertise by appointing multiple new directors with energy and climate experience

CURE notes and supports the recent appointments of Michael Angelakis and Jeffrey Ubben to the Board, but urges the Company to appoint additional directors with diverse backgrounds and experiences, most importantly in the energy and climate sectors, to implement CURE's recommendations. If ExxonMobil does not have the necessary skills within its management to implement the strategic change described in these recommendations, then it should look outside of the Company to bring in talented and committed individuals and teams.

c) Align CEO and executive compensation more strongly with total shareholder return and GHG reduction performance metrics

CURE would like to see transparent, defined metrics for future CEO and executive compensation, based on performance against total shareholder return and climate-related objectives while excluding metrics which incentivize the growth of hydrocarbon production.

KEY ISSUE 2: ABSENCE OF ENERGY TRANSITION STRATEGY

Background and Scope 3 Emissions

It is clear from CURE's perspective that ExxonMobil's Board did not consider that the high oil prices of 2010-2014 might be abnormal, preferring – like many oil majors – to believe that it was the "new normal." This view was probably bolstered by management's belief that demand would continue to rise and new supply would be needed. CURE believes that most of the Board's errors stem from the belief that business-as-usual would continue. It seems as if management is taking a similar blinkered view of the energy transition. But one of the biggest risks the oil and gas industry faces is that oil and gas could face a significant loss of market share due to efficiency measures and

continued growth in low/no carbon alternatives. As a result, oil and gas prices may be under pressure in the future, and ExxonMobil will not necessarily see the recovery in prices that its strategy appears to depend on.

Climate change and the need to reduce carbon emissions are rapidly changing the legal, regulatory, and social constraints under which the oil and gas industry will have to operate. In light of this, CURE believes ExxonMobil's Board and management urgently need to develop a clear net-zero emissions business transition strategy that sees governance, capital expenditure, and lobbying aligned with it. In our view, ExxonMobil must also change in order to fulfill its responsibilities to all of its stakeholders, including by protecting shareholder value. As evidence of the severe impacts from climate change mounts, policy makers, companies, and financial bodies are increasingly focused on stabilizing global temperature increase to less than 2°C above pre-industrial levels—and preferably to 1.5°C – as outlined in the Paris Agreement. The industry expectation is net-zero across Scope 1-3 emissions, as peers have been setting. The following peer oil and gas companies have all adopted net-zero emissions reduction targets: BP,[44] Eni,[45] Repsol,[46] Shell,[47] and Total.[48]

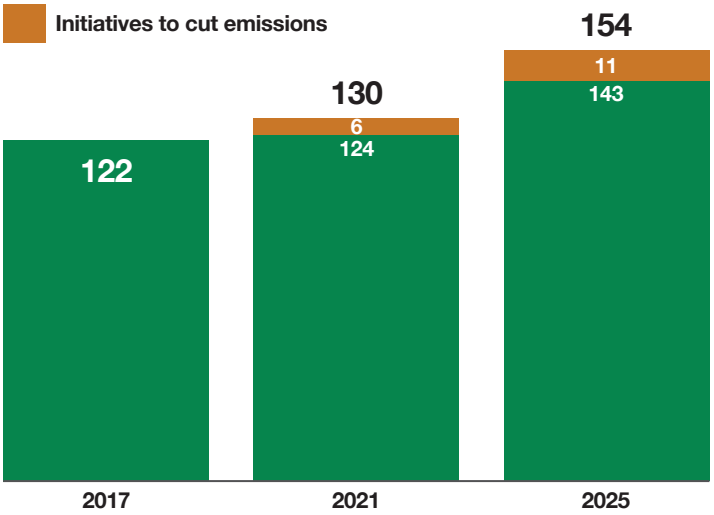
ExxonMobil's sustainability activities have been extremely limited in scope,[49] and its efforts to reduce its absolute enterprise-wide (Scope 1-3) emissions are essentially nonexistent, with leaked documents revealing plans for increased emissions (see Figure 5).[50]

ExxonMobil is also known for its lack of transparency around its climate impacts. The last of its peers to do so, ExxonMobil only just disclosed its Scope 3 emissions in 2021 – the largest of all peers.[52]

The oil and gas industry is facing a disruptive existential crisis due to the rapidly evolving policy and market risks as the global economy shifts to decarbonize major GHG intensive sectors, such as energy production, industry, transport, and agriculture. ExxonMobil is at particular risk due to its size and lack of transition preparation.

Figure 5: Exxon's growth in production would have increased direct (Scope 1) emissions 17% by 2025[51]

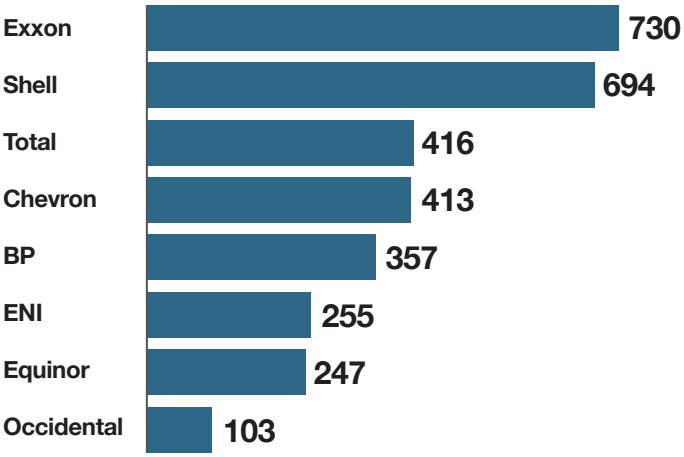
Million metric tons of CO_2-equivalent



SOURCE: Internal ExxonMobil documents seen by Bloomberg News

Figure 6: Scope 3 makes up more than 80% of most oil companies' total emissions[53]

Million metric tons of carbon dioxide equivalent



SOURCE: Bloomberg

Note: Emissions data are for year 2019

Policy Risk

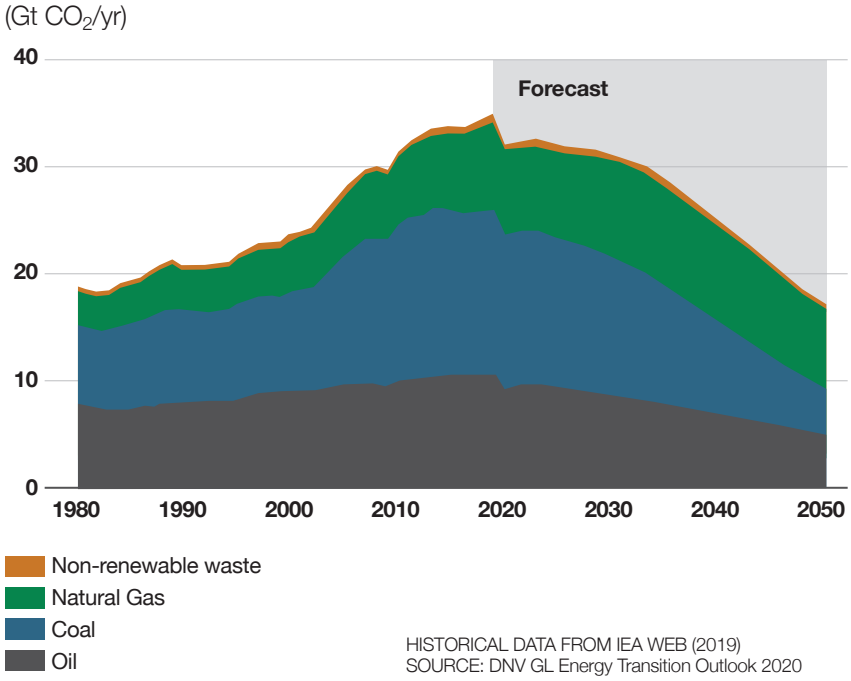
At a recent event in the build up to COP 26, the UK government highlighted that over half of G20 countries and around 70% of global emissions are now covered by net-zero targets.[54] Research shows that carbon pricing initiatives and broader climate-related policy are growing annually.[55,56] The U.N. has termed this "the inevitable policy response."[57] The systemic risks of climate change – to societies, economies, markets, human health, and welfare – are driving increasing pressure for global policy action. The Paris Agreement's "ratchet mechanism" also increases the likelihood that global policy announcements will accelerate as countries must set new emission reduction targets every five years.[58]

ExxonMobil's lack of portfolio options and long-term climate objectives leave the Company vulnerable, particularly in light of the new administration in Washington. The Biden administration has outlined a vision for a transition from oil in favor of policies to decarbonize in line with the Paris Agreement at the state and local level.[59,60] More aggressive future climate-focused policy and litigation could harshly penalize a large source of GHG emissions like ExxonMobil.[61]

Market Risk

Projections increasingly show oil and gas consumption plateauing and peaking in the near future. This trend is driven by a complex set of economic, political, technological, and legal factors that have altered the energy landscape. In each sector where ExxonMobil competes, these trends are having impacts today and are likely to increase in size and velocity. Energy consultancy DNV GL predicts 2019 was the peak for oil demand and that the COVID-19 pandemic will have lasting behavioral shifts on energy usage (see Figure 7). Oil and gas major BP sees peak demand for oil arriving in the next decade even if there is no ambitious policy action taken to combat climate change.[62]

Figure 7: World Energy-Related CO2 Emissions by Fuel[63,64]



As the market moves away from oil and gas, the risks inherent in ExxonMobil's high cost reserves portfolio will increase. The Company also recently de-booked 98% of its oil sands holdings in Canada, part of a 32% reduction to its portfolio of oil and gas at current prices.[65,66] According to a recent Rystad study, oil sands owners face extraordinary price and cost risks due to lower profitability and higher CO_2 emissions.[67]

While "lower for longer" outlooks and commodity price volatility are the industry norm, ExxonMobil has bet on a counter-intuitive plan, as CEO Darren Woods stated to the Financial Times on March 5, 2020: *"We want to ensure that we're well-positioned for the inevitable upswing as growth in demand outstrips current supply."*[68] This continued business-as-usual strategy replicates the mistakes ExxonMobil made over the last decade that caused its fall from grace. Now, it faces more disruption to the status quo as oil demand risk grows due to policy and market changes responding to climate change and the energy transition.

ExxonMobil's portfolio's high costs add to the problem that the Company's reserves, if extracted, would contribute to further deterioration of the global climate. Given the high costs, ExxonMobil risks low profitability in an environment of falling demand and should be extremely cautious about its production levels. A recent Carbon Tracker report ranked ExxonMobil the worst of any major oil company when compared by project, price, and emission projections (see Figure 8).

Figure 8: Company Positioning Based on Portfolio Economics, Emissions Ambition, and Impairment Price Assumption[69]

COMPANY	PORTFOLIO EXPOSURE % of BAU projects inconsistent with 1.6°C pathway	CLIMATE TARGET Rank based on Carbon Tracker framework	OIL PRICE ASSUMPTIONS Maximum price 2020-2050, $ per barrel
Eni	40%-50%	2	$60/barrel
BP	50%-60%	1	$60/barrel
Repsol	40%-50%	3	$68/barrel
Shell	60%-70%	4	$60/barrel
Total	50%-60%	5	$73/barrel
Chevron	60%-70%	7	Undisclosed
Equinor	80%-90%	6	$82/barrel
ConocoPhillips	70%-80%	8	Undisclosed
ExxonMobil	80%-90%	9	Undisclosed

CURE RECOMMENDATIONS TO ADDRESS ENERGY TRANSITION AND PARIS AGREEMENT ALIGNMENT

a) Set an absolute enterprise-wide net-zero target by 2050, including interim short- and medium-term targets, and a detailed decarbonization strategy for achieving targets

Short-, medium-, and long-term absolute net-zero GHG targets that cover all Company emissions (Scope 1-3) are necessary to ensure that ExxonMobil implements a decarbonization strategy which is aligned with the necessary timeline to achieve climate stabilization at 1.5°C.

In our view, ExxonMobil needs to develop a robust decarbonization strategy that outlines the specific actions it will take to achieve these GHG targets. This includes improving the efficiency of, and reducing the emissions intensity of, existing assets, and reducing investments in high-carbon assets and high-breakeven assets. ExxonMobil must align its capital allocation with its enterprise-wide short-, medium-, and long-term GHG targets to ensure investment strategy and decisions are consistent with its decarbonization goals.

These goals and strategy will act as a guide for management to curtail its impulses to spend on high cost, high capex intensity projects as history shows it keeps doing. Together they will support ExxonMobil's evolution to reduce exposure to disruptive policy risk and navigate the energy transition successfully.

b) Develop a climate lobbying position aligned with the Paris Agreement

We believe ExxonMobil must align all direct and indirect lobbying activities to ensure that it is consistent with the Company's net-zero targets, decarbonization strategy, and obligations under the Paris Agreement. Ensuring lobbying alignment with climate goals will reduce the Company's reputational risk.

THE MEMBERS OF CURE INTEND TO VOTE IN FAVOR OF PROPOSAL 10 AT THE ANNUAL MEETING

c) Provide scenario analysis disclosure, including carbon price assumptions and asset-level detail

ExxonMobil needs, in our view, to provide investors with clear 1.5°C scenario analyses of breakeven prices, asset stranding risks, and the potential impact on financial results. These analyses should meet best-in-class disclosure standards and be reviewed by an independent auditor.

THE MEMBERS OF CURE INTEND TO VOTE IN FAVOR OF PROPOSAL 6 AT THE ANNUAL MEETING

d) Provide regular updates on the Company's compliance with climate targets described herein

CURE firmly believes that ExxonMobil needs to demonstrate to investors that its net-zero strategy is adequate to achieve the climate targets set forth herein. Regular updates and engagement will enable ExxonMobil to hold itself accountable to address strategic shortcomings and pivot its strategy.

CONCLUSION

The weakness of the ExxonMobil Board and management, in our view, have led to worst-in-class performance within a market sector that trails nearly all others in the economy. The Company only faces harsher headwinds going into the future as the global economy evolves to rapidly decarbonize and avoid the worst impacts of climate change.

The energy transition has unleashed forces that have eroded business models based on oil and gas. These changes are fundamental, irreversible, and will only pick up pace as climate policy is more aggressively introduced. Newly emerging industries, businesses, and technologies that compete with oil and gas are in various phases of startup and growth. ExxonMobil has doubled down on oil and gas while rivals pivot into clean energy technologies and new disruptive players enter the energy market. Energy companies that have leaned into the transition have grown rapidly, while oil and gas supermajors have stumbled and shrunk; for example, ExxonMobil's market capitalization was surpassed for a short period in 2020 by clean energy utility NextEra.[70] ExxonMobil has the opportunity to correct its current problematic long investment horizon and align with global governments' aims to achieve net-zero emissions economy-wide by 2050 to avoid stranded assets and value destruction.

CURE is agnostic as to how ExxonMobil achieves becoming a net-zero company by 2050. It can follow peers to transition into a diversified clean energy company that takes advantage of the abundant opportunities offered by the energy transition in disruptive clean technologies such as green hydrogen, offshore wind, and geothermal, or operating as the most efficient and competitive oil and gas producer while winding down operations and returning all value to shareholders. However, ExxonMobil must choose a strategy and demonstrate action toward it with urgency. CURE wants to see a purposeful evolution of the strained company to succeed in the energy transition.

To find success in the emerging clean energy economy and to protect shareholder value from climate change, we believe ExxonMobil needs to take bold steps to break its insular culture, attract the best and the brightest talent, become a much more efficient company, set ambitious GHG targets backed up by an ambitious and clear transition strategy tied to executive incentives, and make investments aligned with the clean future of energy.

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