Transition Pathway Initiative

Embargoed until 00.01 GMT Wednesday 24 November 2021

ENERGY SECTOR "FINALLY MOVING OUT OF FIRST GEAR" ON CLIMATE AS FIRST THREE OIL & GAS FIRMS ALIGN WITH 1.5°C PATHWAY

Energy sector is improving its climate performance, but too slowly, concludes research from $39 trillion-backed Transition Pathway Initiative (TPI)

- **Only one in ten companies aligned with a path to 1.5°C in 2050,** according to TPI assessment of 140 of largest energy companies' 'Carbon Performance'.
- **Majority (57%)** fail to align with any of TPI's temperature benchmarks including one reflecting new National Pledges benchmark.
- **34%** of energy companies now align with a 'Below 2°C' path and for the first time **three** oil & gas firms (**TotalEnergies, Occidental Petroleum, Eni**) align with the 1.5°C. Oil majors such as **Saudi Aramco, BP** and **Exxon Mobil** are not aligned with the Paris Agreement goals.

(London, 24 November 2021). The first annual analysis of major energy company transition plans to be released since COP26 has found that only 1 in 10 are ambitious enough to keep global warming to 1.5°C.

Today's energy sector report is the first to feature TPI's 1.5°C benchmark which assesses corporate targets against the IEA's pathway to keep to 1.5°C of warming.

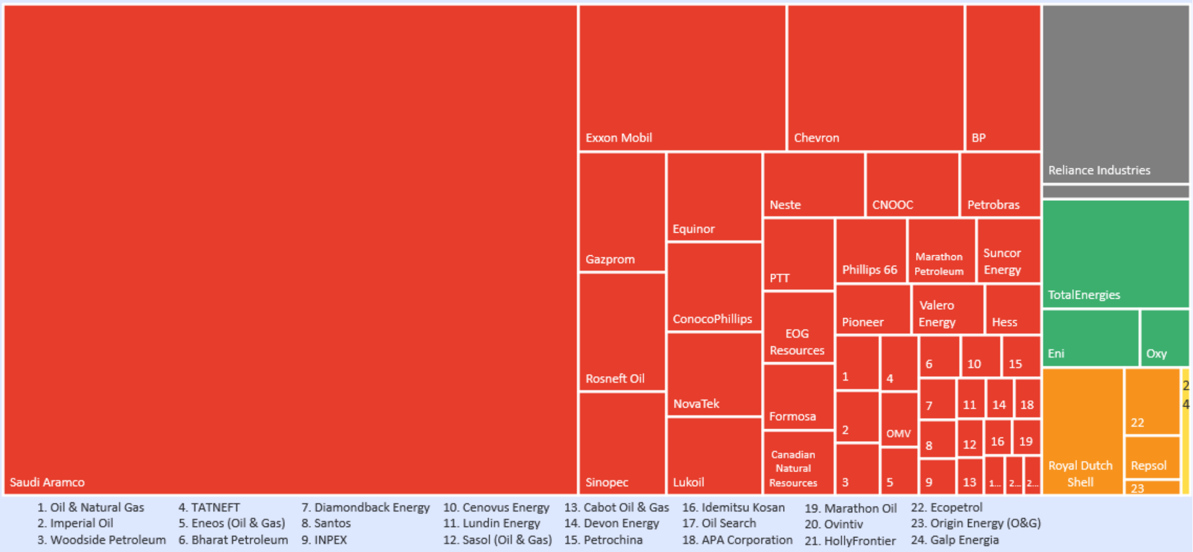
TPI assessed 140 of the largest energy companies (76 electric utilities, 58 oil & gas, 6 diversified miners involved in coal mining) on 'Carbon Performance' finding that **10%** were aligned with a pathway to keeping global warming to 1.5°C, and a further **24%** were aligned with a 'Below 2°C' pathway.

However, **66%** of firms were not aligned with the Paris Agreement. (Of these 53% were not aligned with any TPI climate benchmark, 9% were aligned only with 'National Pledges' – i.e. national commitments that still take global warming over 2°C, and 4% did not disclose climate data). TPI's 'Carbon Performance' analyses each company's current levels of emissions and emission reduction plans to 2030 and 2050.

A total of 14 firms were aligned with 1.5°C, of which six are based in the US. The 1.5C aligned firms are: **Occidental Petroleum** (US), **TotalEnergies** (Fr), **Eni** (It), **E.ON** (Ger), **RWE** (Ger), **Ørsted** (Den), **PSEG** (US), **Eversource Energy** (US), **EDP** (Spain), **Con Edison** (US), **CMS Energy** (US), **AES** (US), **Meridian Energy** (NZ), **Enbw Energie** (Ger).

Three oil and gas firms – Occidental Petroleum, TotalEnergies and Eni – have set emissions reduction targets which are ambitious enough to reach net zero by 2050 and to align with TPI's 1.5°C benchmark. However, **83%** of assessed oil & gas companies are unaligned with any of TPI's benchmarks. The graphic below shows full results for the oil and gas sector. Saudi Aramco represents approximately 48% by market cap.

Figure: Alignment of oil and gas producers in 2050, scaled by market



Adam Matthews, Chair of Transition Pathway Initiative (and Chief Responsible Investment Officer at Church of England Pensions Board) said:

"The transition is underway within the energy sector and some companies, as shown by this latest TPI research, are moving out of first gear and accelerating their transition plans. Concerningly, for investors there remains significant distance between net zero rhetoric and net zero reality in the case of most fossil fuel majors. Electric utilities are the fastest changing sector with a significant degree of companies setting credible targets aligning to net zero.

"Part of the complexity of the transition is there are varied strategic options for companies seeking to achieve net zero. Investors have had to intervene with the support of insights from TPI to set a Net Zero Standard on disclosure in the oil and gas sector and are working to do the same in the mining sector. These Standards will be reflected in future TPI energy assessments. Investors need to engage the demand side with the same level of intensity that we do with the fossil fuel sector. Ultimately, if we reshape demand we reshape the energy providers."

Eva Cairns, Head of Climate Change Strategy at abrdn said:

"It's fantastic to see this critical piece of research on transition strategies and alignment in energy-related sectors, a hugely valuable resource for asset managers. And a sobering read given that the TPI management score only nudged up slightly from 2.7 to 2.8 compared to last year and only 10% of companies are 1.5C aligned – lots of work still to be done.

Catherine Ogden, Sustainability and Responsible Investing Manager said:

"We welcome the new TPI report and the aggregated approach to the energy sector demonstrating the interdependencies required to transition the economy to net zero. We particularly welcome the expansion of the assessment to shine a spotlight on the critical role of large bond issuers. The report clearly highlights the need for continued engagement to drive alignment across the sector."

Management Quality

The TPI report also assessed carbon 'Management Quality' - i.e. corporate governance of climate risk and opportunities - for 190 leading oil & gas, electric utility and coal mining firms. The average Management Quality of the energy sector improved marginally from 2.7 to 2.8 this year.

Although the sector performs better than other high-emitting sectors on most Management Quality indicators, it performs worse than average on target setting and disclosure of Scope 3 use of sold product emissions (e.g. emissions from the cars or planes that use sold fossil fuels)**.** The latter is critical for fossil fuel producers, as it presents their greatest source of emissions and transition risk. Less than half of O&G producers and less than a quarter of coal miners disclose Scope 3 use of sold product emissions use of sold products – including BP, Eni and Shell.

Nikolaus Hastreiter, researcher for Transition Pathway Initiative at LSE's Grantham Research Institute for Climate Change and the Environment and co-author of the report said:

"While the pace of transition efforts in energy supply sectors has increased, it has not yet reached the level which is necessary to prevent the worst consequences of climate change.

"One third of the assessed electricity utilities have published encouraging net zero targets, even though particular attention must be paid to their timelines. To keep global warming to 1.5 degrees, the sector must reach net zero already by 2040 on a global level. The sector plays a crucial role as a first mover in the zero-carbon transition, given that the decarbonization plans of other sectors anticipate the use of carbon neutral electricity in the future.

"In the oil and gas sector, our research shows for the first time that the ambitions of a minority of companies are keeping up with the challenge of 1.5 Degrees. However, the vast majority of the sector (93% of assessed companies) have still not published carbon emissions reduction targets which would keep global warming to at least below 2 Degrees."

Notes to editors

- For more information or exclusive interviews with the TPI team please contact:
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- TPI's company assessments are divided into 2 parts:

1) 'Management Quality' assesses companies' management/governance of greenhouse gas emissions and the risks and opportunities arising from the low-carbon transition against 19 indicators. The energy sector report assessed 190 companies on Management Quality.

2) 'Carbon Performance' involves quantitative benchmarking of companies' emissions pathways against 3 benchmark scenarios. The energy sector report assessed 140 companies on Carbon Performance. The 3 benchmark scenarios are:
    1. **1.5C benchmark** - which builds on the IEA's NZE 2050 scenario and holds the global temperature increase to 1.5C with a 50% probability (new scenario).
    2. **Below** 2°C **-** which builds on the IEA's SDS2020 scenario and holds the temperature rise to below 1.8C with a 66% probability, or 1.65C with a 50% probability (updates the previous TPI Below 2C scenario);
    3. **National Pledges** - which builds on the IEA's STEPS2020 scenario, with national targets announced as of mid-2020 (replaces TPI's Paris Pledges scenario);

- All Carbon Performance data is correct as of 05th August 2021. Data is sourced for public disclosure and analysed by the Grantham Research Institute at the London School of Economics. For Carbon Performance assessments, TPI uses the Sectoral Decarbonization approach (SDA), which was created by CDP, WWF & WRI in 2015 and is also used by the Science Based Targets Initiative. Management Quality data is sourced from FTSE Russell with dates of assessment varying for each company and all assessments taking place before end March 2021.

About TPI

Established in 2017, TPI is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' progress on the transition to a low-carbon economy, supporting efforts to address climate change. It is supported globally by 113 investors managing over $39 trillion of assets. More information can be found here: https://www.transitionpathwayinitiative.org/ All TPI data is published via an open-access online tool.