IIGCC
The Institutional Investors Group on Climate Change

Equinor ASA (EQNR)

Annual General Meeting: Wednesday 11 May 2022

Resolutions are being highlighted by a Climate Action 100+ initiative signatory for the attention of other signatories.

Organization requesting a 'flag' on a resolution:

Natasha Landell-Mills, Sarasin & Partners LLP

Investor statement available here and supporting assessment from Carbon Tracker here.

Resolution text:

The member is flagging three resolutions and stating they are intending to vote AGAINST them:

Resolution #10: The company's energy transition plan

Resolution #6: The annual accounts and the annual report for 2021

Resolution #22: The Remuneration to the auditor for 2021

Notice of Meeting

Summary of why the resolution is being flagged

Sarasin & Partners LLP will be voting as follows at the 2022 AGM, with the stated rationales:

- Energy transition plan (Resolution #10) – Against

  Equinor, has published a detailed Transition Plan setting out how they will deliver their net zero by 2050 ambition. Shareholders have the opportunity at the coming AGM to vote on whether it is good enough.

  Notwithstanding the positive steps that Equinor's leadership is proposing to take, Sarasin & Partners are planning to reject this plan. Whilst the publication of a clear plan to achieve Equinor's stated Net Zero ambition is supported, they feel they cannot support a plan that fails to align with a 1.5C pathway. Put simply, Equinor's capital expenditure needs to shift more quickly into clean solutions, and also more quickly away from carbon-intensive infrastructure.

- The annual accounts and dividend (Resolution #6) – Against

  They propose a vote against the Annual report and financial statements on climate grounds:

It is unclear how asset lives, expected production volumes and asset retirement obligations are consistent with Equinor's stated climate targets. There is a 1.5C sensitivity analysis (suggesting a potential $7bn impairment) but this seems low when compared to their parallel sensitivity for a 30% reduction in commodity prices ($9bn). One of the leads states that they cannot establish whether they have included the impacts for all balance sheet items beyond Property, Plant, and Equipment (PP&E), or whether they considered impacts beyond lower commodity prices and carbon taxes (such as shorter asset lives etc).

- Auditor remuneration (Resolution #22) – Against

  They will vote against the remuneration for the auditor on climate grounds. They make no mention of how they considered climate risks for their Key Audit Matters (KAMs) on AROs. Moreover, EY does not comment on whether the financial statement reflect Equinor's Net Zero ambition, or medium-term targets, which we would expect to have a bearing on their assessment of the veracity of the accounts.

Background

On the Climate Transition Plan

Transition Plan is not good enough - A lead investor notes that central problem is that it's a 'go-slow' Transition Plan, rather than one designed to show the world how oil and gas majors can become the clean energy titans.

Positively, the share of capital expenditure going to renewables and climate solutions will rise from just 4% in 2020 to over 50% by 2030. This is a big step up from the 13% share they were previously planning for 2030. But this still leaves up to 50% – amounting to tens of billions of dollars – flowing into fossil fuels. Consequently, they forecast that in 2030 roughly 90% of their production volumes will still be oil and gas.

The IEA has stated unequivocally that if the world is to achieve a 1.5C outcome, there can be no new oil and gas reserves[1]. Equinor's plan makes no such promise. Their Transition Plan seems to be structured to avoid early-retirement of their fossil fuel operations:

> "*Due to the long-term nature of investments in energy projects it is expected that our increasing share of investments in renewable energy projects will have a delayed impact on the relativity between oil, gas and renewables in the total production profile*."

This may be true, but Equinor could shorten the lives of some of these long-term assets for the sake of protecting the planet and avoiding future stranded assets.

Under a Net Zero pathway envisaged by the IEA, Equinor states clearly that its current investments could see 34% of Net Present Value written down[2]. That should be a red flag for long-term shareholders: Equinor is over-investing in activities that are not aligned with a 1.5C pathway, and thereby putting capital at risk.

---

[1] Net Zero by 2050 – Analysis - IEA
[2] df1f0cb19f173c1e616f83263540fd98e366212f.pdf (sanity.io)

Winding down the brown can be balanced by a faster scaling up of the green. And if that's not earnings accretive, they should return the cash to shareholders. This would be a far more credible and sustainable investment proposition. And it should be one supported by its main shareholder, the Norwegian state, which has itself committed to a 2050 Net Zero future and a leading proponent of the Paris Climate Agreement.

As it stands, Sarasin & Partners plan to reject Equinor's Energy Transition Plan.

On the annual accounts and Auditors remuneration resolutions

- In November 2020, a large group of investors wrote to Equinor's Audit Committee Chair setting out detailed investor expectations for net-zero aligned accounting and audit disclosures. At a high level, the investors were seeking visibility for how: 1) expected material climate risks; 2) Equinor's own climate targets; and 3) a transition onto a 1.5C pathway would impact the Company's financial position.
- Whereas 1 and 2 above should be incorporated into the financial statements, 3 could be provided through sensitivity analysis in the Notes to the accounts.
- Further detail on the investor expectations is provided in this IIGCC briefing paper: Investor Expectations for Paris-aligned Accounts – IIGCC.
- A follow up investor letter was sent in December 2021, repeating the requests, and pointing to updated regulatory and standard setter statements supporting the investor requests.
- Global regulators and standards setters have also made clear that, under existing rules, material climate risks must be incorporated into company accounts. The European Securities Market Authority have identified the inclusion of material climate risks into financial statements as a supervisory priority for 2022[3]. The accounting standard setter (IASB) and the audit standard setter (IAASB) have both published guidance underlining why material climate risks must be considered under existing standards[4].
- Equinor's 2021 Annual Report and Form 20-F do not met investor expectations regarding providing visibility for how its critical accounting assumptions have incorporated material climate risks, or how its own commitment to carbon net neutrality in 2050 was considered as part of the accounting or audit process. There is no quantitative disclosure for what a 1.5C pathway might mean for its financial position.
- The detailed assessment of its 2021 Financial Statements is provided below under 'Rationale details'.

Rationale details

On the Climate Transition Plan

- Please refer to the Member Alert here: https://www.iigcc.org/download/equinor-alert/ and the key issues as set out in the Background section above.

On the annual accounts and Auditors remuneration resolutions

[3] European enforcers target COVID-19 and climate-related disclosures (europa.eu); News I Financial Reporting Council (frc.org.uk)

[4] IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards, IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC, Summary-FINAL.pdf (frc.org.uk)

- Please refer to detailed analysis by the Climate Accounting & Audit Project link here: https://carbontracker.org/wp-content/uploads/2022/04/Equinor_31Dec21_AcctgAssessment_2022AGMs.pdf

One of the Climate Action 100+ initiative members offer the following analysis:

- Equinor's latest audited accounts provide increased disclosures on how they have considered accelerating decarbonisation and their own climate commitments. They have determined that current expected decarbonisation falls well short of a 1.5C pathway and does not require any change to their critical accounting assumptions, whether that is long-term commodity prices, asset lives, expected production volumes or assumptions linked to asset retirement obligations. Given these assumptions, they have no climate related impairments to report.
- However, when considering their long-term oil and gas price assumptions, these appear elevated compared to peers. Equinor's anticipated oil price, for instance, is expected to rise from $65/bbl in 2025 price to peak in 2030 at an undisclosed level, before declining to $64 in 2040. Shell, in contrast assumes a flat $60 from 2025 into the long-term. Equinor's gas price assumption is $3.2/mmbtu in 2030 (HH) versus $3 used by Shell.
- The remaining asset lives for key fossil fuel related assets are not disclosed.
- Asset life assumptions are also key to whether or not they would adjust their asset retirement obligations (AROs) – if you shorten your asset lives, you bring forward clean-up obligations. None of these has changed and yet Equinor is on a path of winding down fossil fuels in favour of low carbon solutions.
- There is no disclosure relating to how their carbon capture and storage and other carbon removal/offset plans are being reflected in the impairment tests, if at all.
- Looking at its cost of capital, Equinor does state that it could envisage potential increases linked to rising risks associated with fossil fuel investments.

Auditor Remuneration Resolution

- The Auditor (EY) tells us too little **–** Although there is climate commentary in their Key Audit Matters section (KAM) on "Recoverable amounts of production plants and oil and gas assets including assets under development", there is no mention of how they considered climate risks for their KAM on asset retirement obligations.
- EY makes no comment on whether the financial statement reflect Equinor's Net Zero ambition, or medium-term targets. Auditors have been clear at other oil and gas majors such as Shell and BP that this is a material consideration.

Conclusion

As there is not vote on the Audit Committee or Auditor at Equinor's AGM, Sarasin & Partners have therefore focused on the most relevant alternatives.

- Energy Transition Plan (Resolution 10) – Against. The lead investor supports the publication of a clear plan to achieve Equinor's stated Net Zero ambition, however, a lead feels they cannot support a plan that fails to align with a 1.5C pathway. Put simply, Equinor's capital expenditure needs to shift more quickly into clean solutions, and also more quickly away from carbon-intensive infrastructure. Where Equinor cannot find earning accretive options, they should return their cash to shareholders.

- **Annual Report & Accounts & fourth quarter dividend (Resolution 6) – Against.** While we welcome increased disclosures in the financial statements, including a new Note on climate considerations, the disclosures remain partial. We are unclear how asset lives, expected production volumes and asset retirement obligations are consistent with Equinor's stated climate targets. We welcome the 1.5C sensitivity analysis (suggesting a potential $7bn impairment) but this seems low when compared to their parallel sensitivity for a 30% reduction in commodity prices ($9bn). We cannot establish whether they have included the impacts for all balance sheet items beyond PPE, or whether they considered impacts beyond lower commodity prices and carbon taxes (such as shorter asset lives etc).
- **Approval of remuneration for the company's external auditor (Resolution 22) – Against.** We welcome the climate commentary in EY's Key Audit Matter on "Recoverable amounts of production plants and oil and gas assets including assets under development". However, they make no mention of how they considered climate risks for their KAM on AROs. Moreover, EY does not comment on whether the financial statement reflect Equinor's Net Zero ambition, or medium-term targets, which we would expect to have a bearing on their assessment of the veracity of the accounts.