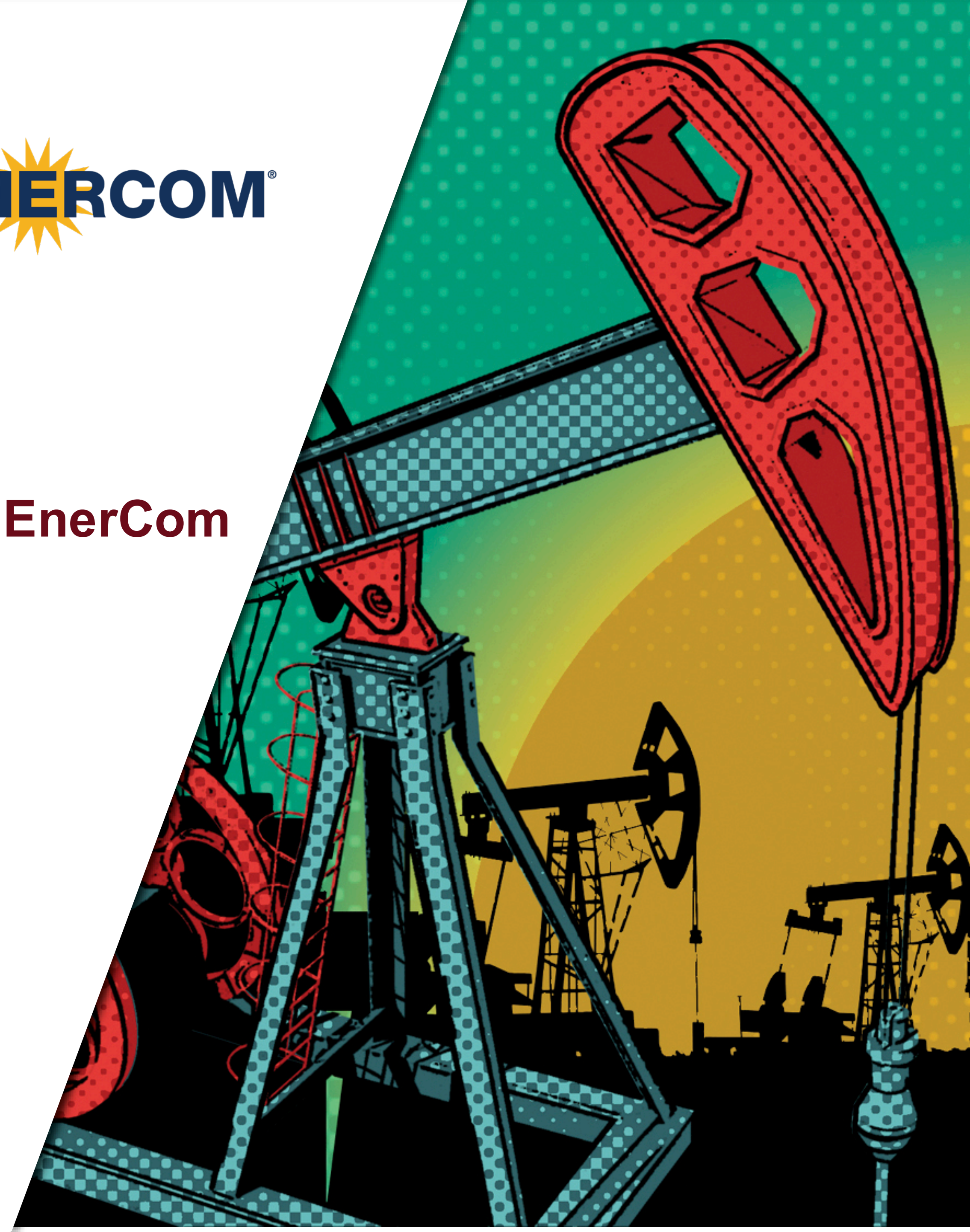
haynesboone

ENERCOM

Haynes and Boone and EnerCom Oil & Gas ESG Tracker

March 2021



Overview – Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Environmental, social and governance (ESG) criteria have emerged in recent years as a significant, mainstream governance topic covering a wide range of issues. Investors are looking to the proxy statement as a "gateway" for ESG disclosure that provides highlights of recent ESG initiatives and progress as well as an overview of more detailed ESG information typically found in a sustainability report or on the company's website. Although today the SEC requires very little ESG-related disclosure in a public company's SEC filings, investors have increasingly demanded that companies articulate and communicate ESG policies and their progress toward implementing those policies to all stakeholders. As a result of this pressure, public companies are increasingly including ESG disclosure in their filings, namely the proxy statement and, to a lesser extent, the Annual Report on Form 10-K. In addition, many public companies have dedicated a portion of their website to ESG disclosures.

As demand for ESG reporting grows, the oil and gas industry will continue to encounter more pressure from stakeholders, regulators, lenders and peers to broaden disclosures of the environmental and social impact of exploration and production operations and how each company is governed. In January 2021, Haynes and Boone, LLP and EnerCom partnered to analyze and begin tracking the ESG programs, if any, of 30 U.S.-listed middle market onshore oil and gas producers and the extent of publicly disclosed ESG policies in the proxy statements filed in 2020. We selected producers that have a market cap greater than $100 million and are not at risk for insolvency.

The inaugural Haynes and Boone and EnerCom Oil & Gas ESG Tracker monitors how oil and gas companies are responding to the growing demand that they advance and develop ESG policies and communicate these policies to investors, lenders, regulators and other stakeholders. The following report summarizes the findings from our review of each operator's SEC filings and other ESG disclosures to help the market better understand the ESG policies of mid-sized onshore oil and gas operators and identify trends and takeaways across the industry. We will monitor the proxy statements of these companies as they are filed in the future and publish updated reports showing changes in disclosures.

Haynes and Boone, LLP is an international corporate law firm that helps clients develop and implement a comprehensive approach to managing legal and business risks and addressing ESG-related issues. Click on these links to learn more about our Energy Practice Group and ESG Practice Group.

EnerCom, Inc. is an internationally recognized management consulting firm advising companies on Environmental, Social & Governance (ESG), investor relations, corporate strategy/board advisory, marketing, analysis and valuation, media, branding, and visual communications design. Learn more at enercom.com.

Trends – Haynes and Boone and EnerCom Oil & Gas ESG Tracker

General Trends

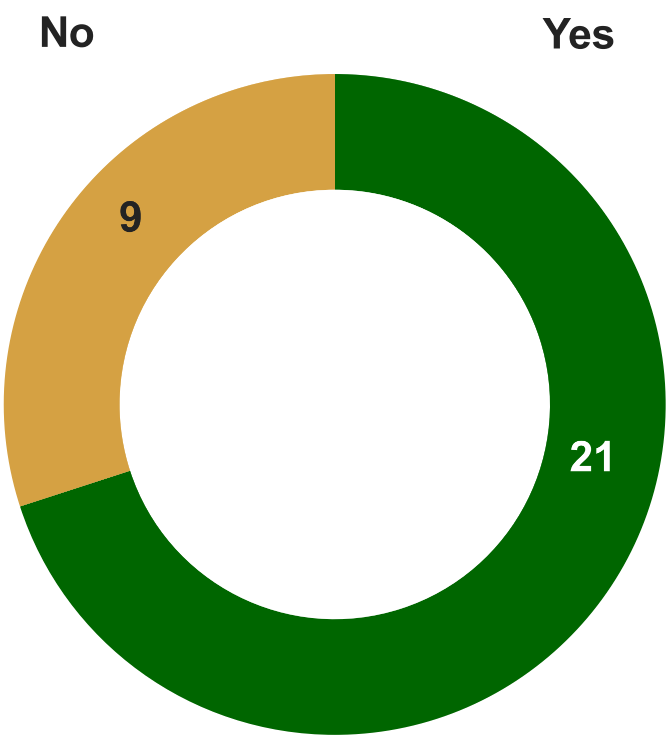
1. Significant capital is being invested in funds with an ESG focus
2. More than two-thirds of the companies tracked have disclosed ESG programs in SEC filings, company websites, and investor presentations
3. ESG-focused activism continues to gain momentum in the oil and gas industry
4. Companies looking to raise equity or debt capital are finding that investors expect to see some ESG disclosure—we have found that companies with the greatest degree of ESG disclosures have had more activity in the capital markets than those companies with little or no ESG disclosures

Proxy Statement Disclosure Trends

1. Companies are disclosing ESG highlights in the CEO's letter and/or the proxy statement summary
2. Companies are increasingly adding qualitative disclosures on ESG in the proxy statement
3. Investors want more disclosure of quantitative metrics, reported under a consistent framework, that allow them to compare "apples to apples"
4. Companies are disclosing details of stockholder engagement efforts relating to ESG
5. Boards of Directors are forming a committee dedicated to ESG oversight
6. Companies are incorporating ESG metrics into performance targets because investors want to see that executives are incentivized to make progress toward ESG goals
7. Companies are identifying those directors with ESG-related skills

Analysis of the Sample Producers

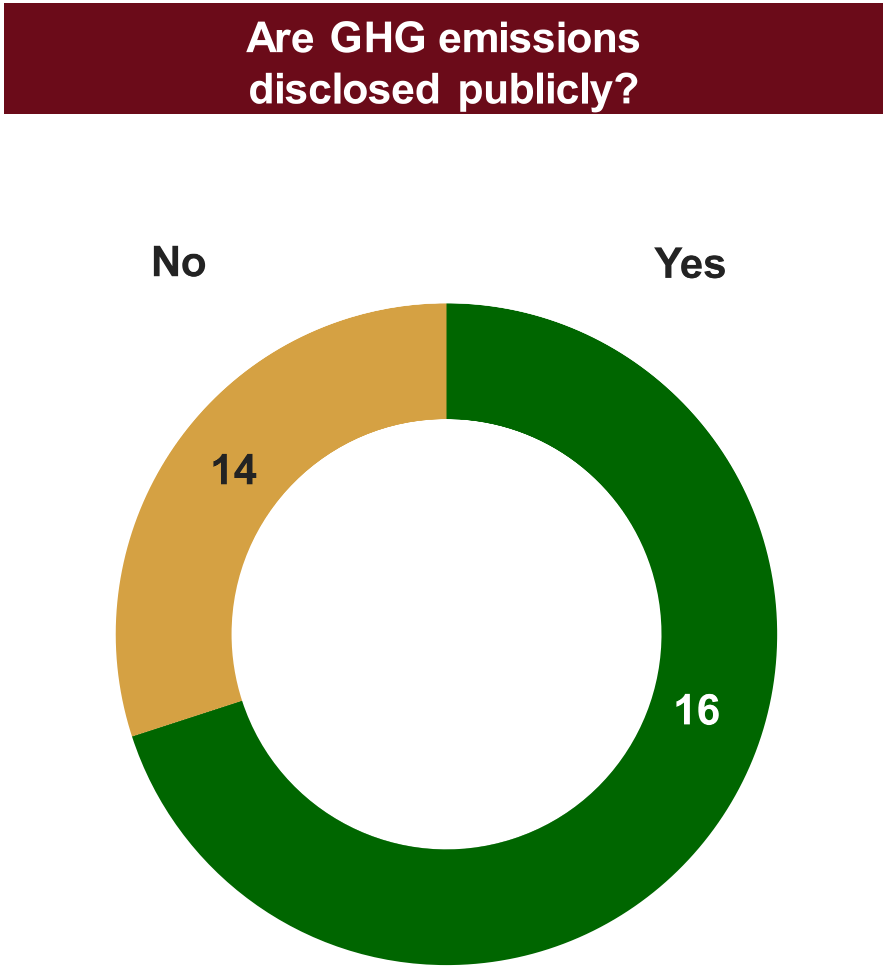
Does the sample producer have an ESG policy?



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- 70% of sample producers tracked have publicly disclosed ESG policies.
- The scope of such policies, and the extent of the disclosures, varies widely among sample producers.
- ESG disclosures can be found on company websites and in SEC filings, investor presentations and letters to shareholders.
- Of the 30% that have not disclosed ESG policies, some have signaled public disclosures in 2021.

Analysis of the Sample Producers

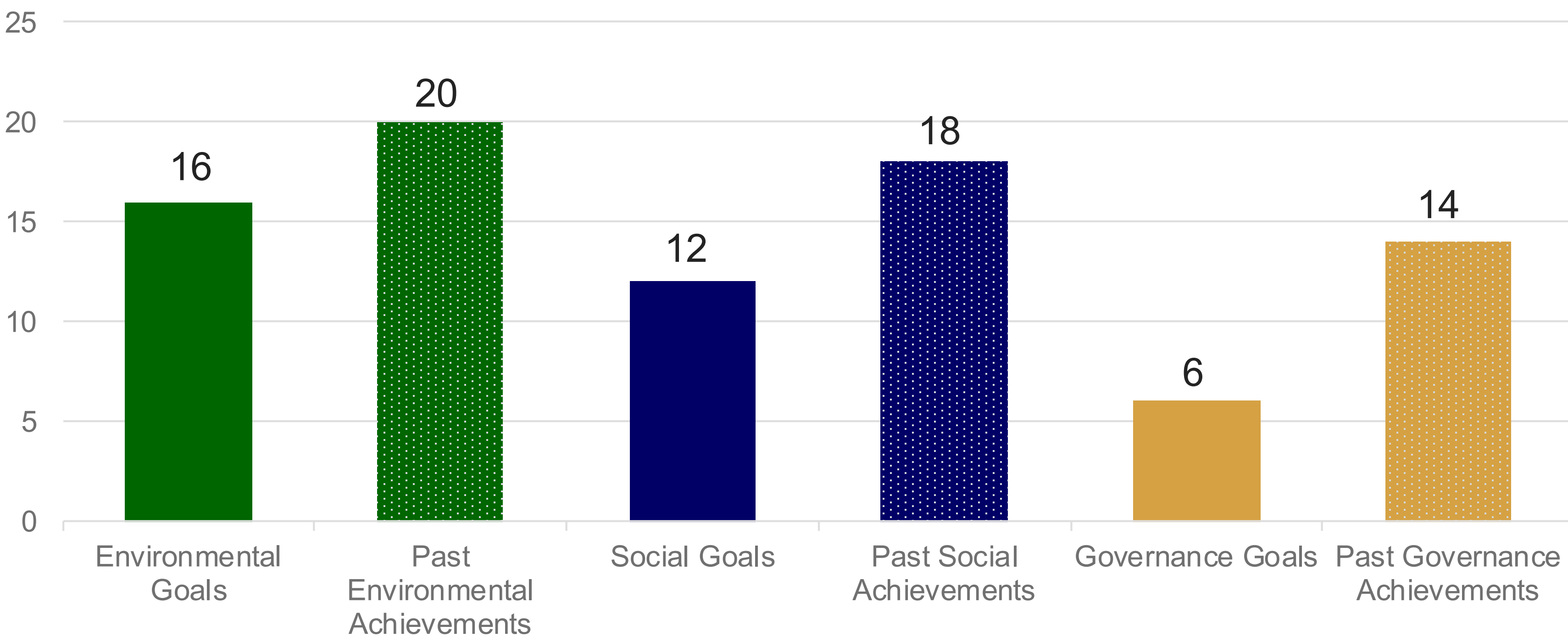


Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Sample producers monitor and, in particular circumstances, annually report GHG emissions to the EPA from certain operations.
- Of the 53% that publicly disclose ESG emissions, most emphasize efforts to reduce emissions, including:
    - implementation of LiDAR technologies to monitor and measure emissions;
    - installation of new field equipment;
    - electrification of operations; and
    - use of renewable energy in the field.

Analysis of the Sample Producers

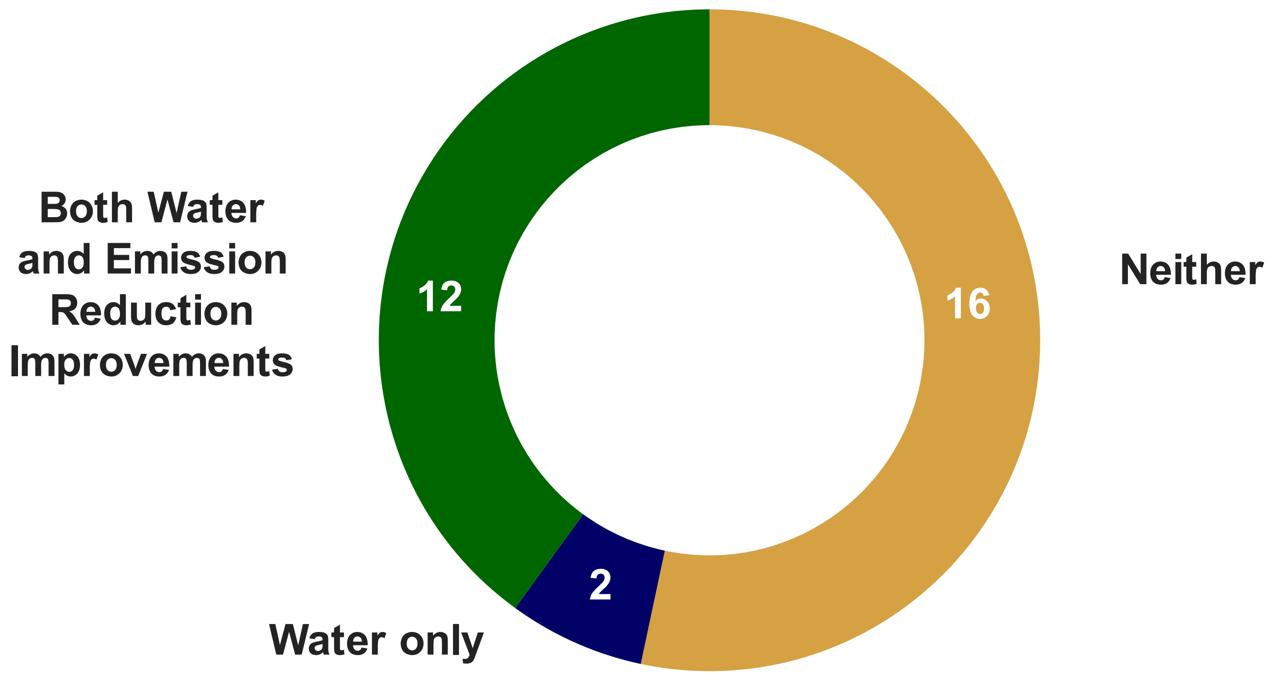
Does the sample producer report ESG strategies, goals or previous achievements?



Takeaways – ESG Achievements and Objectives

- Generally. Sample producers are more likely to report ESG achievements than commit publicly to quantifiable ESG targets and objectives.

- Environmental. Many sample producers highlight improvements in water management, report carbon emission reductions and commit to further reductions in fresh water usage and direct GHG emissions.

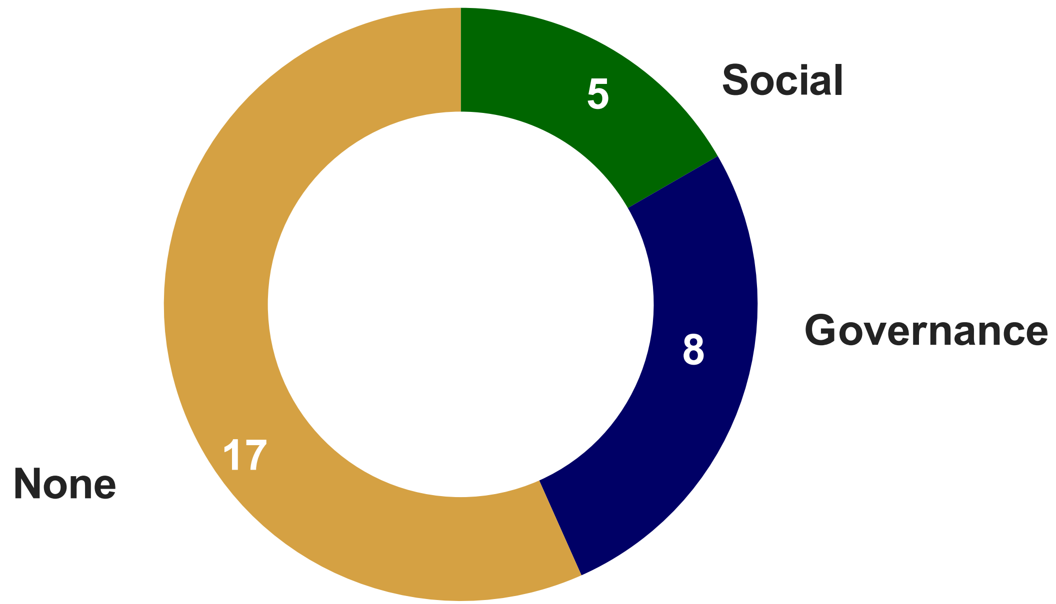


Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Takeaways – ESG Achievements and Objectives

- Social. Sample producers commonly publicize their worker safety, diversity of workforce and management, as well as investments in local communities in the form of volunteering, education programs, workforce training and community partnerships.

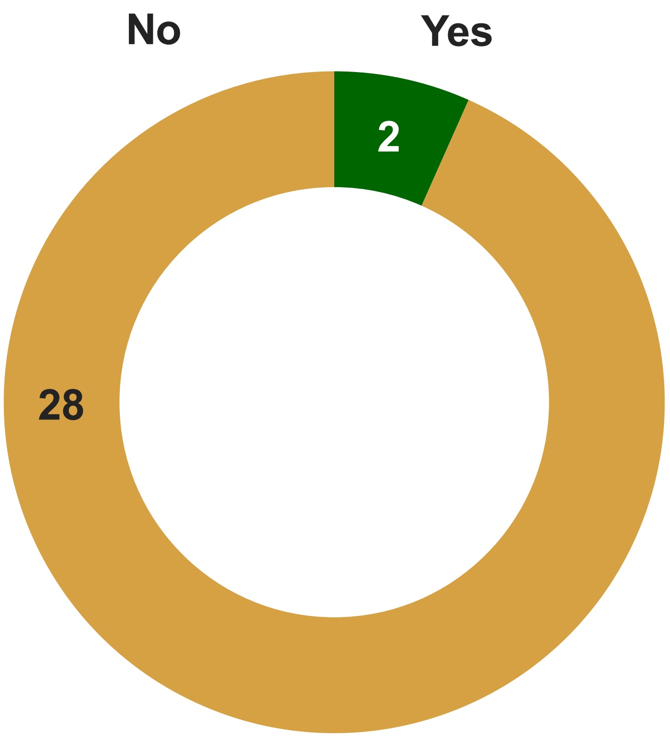
- Governance. The degree of board independence, executive compensation and other corporate policies top the list of reported accomplishments.
  - But companies appear generally unlikely to commit to quantifiable governance goals such as board composition or racial, ethnic and gender diversity.



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Analysis of the Sample Producers

Does the sample producer have a goal of “Net Zero” emissions?



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Achieving “Net Zero” emissions is not a goal for most mid-sized E&P companies, including the sample producers.
- Those that have a “Net Zero” goal of direct GHG emissions intend to accomplish by 2025 through carbon offsets (e.g., reforestation) and improvements in operations.
- The goal does not account for indirect emissions.

ESG and Access to Capital

General Trend #1

Significant capital is being invested in funds with an ESG focus

The top 20 institutional holders of the 30 sample producers that we analyzed have an aggregate of $59.4 billion invested in the equity of the group.

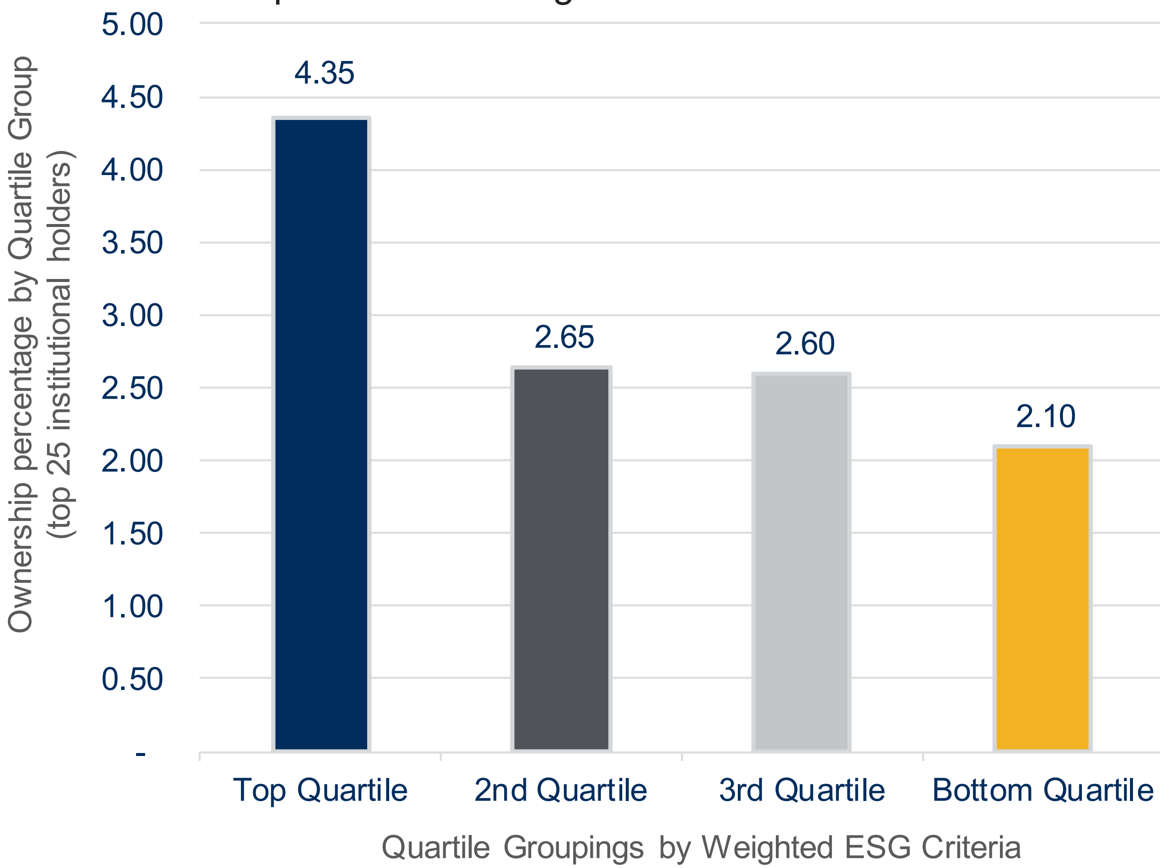
The top 10 holders by value include:

Institution	Peers owned	Value (in $ billions)
VANGUARD GROUP	29	$7.0
BLACKROCK	28	$6.5
STATE STREET CORP	24	$3.6
CAPITAL GROUP COMPANY	4	$2.5
FMR LLC	17	$1.8
JPMORGAN CHASE & CO	9	$1.5
DIMENSIONAL FUND	20	$1.4
T ROWE PRICE GROUP	5	$1.3
GEODE CAPITAL MANAGEMENT	23	$1.0
INVESCO LTD	8	$1.0

Top Holders of Sample Producers

Top 25 Institutional Ownership By Company Disclosure Quartile Group

Institutional holders own a greater percentage of sample producers with significant ESG disclosures.



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Notable institutions adding to positions:

1. Invesco Ltd
2. Capital Group Company
3. Blackrock
4. Goldman Sachs Group
5. Wells Fargo

Notable institutions selling positions:

1. Fidelity Investments,
2. Fortune SGAM Fund Management Co
3. Deep Basin Capital LP
4. JPMorgan Chase & Co.
5. Citadel Advisors LLC

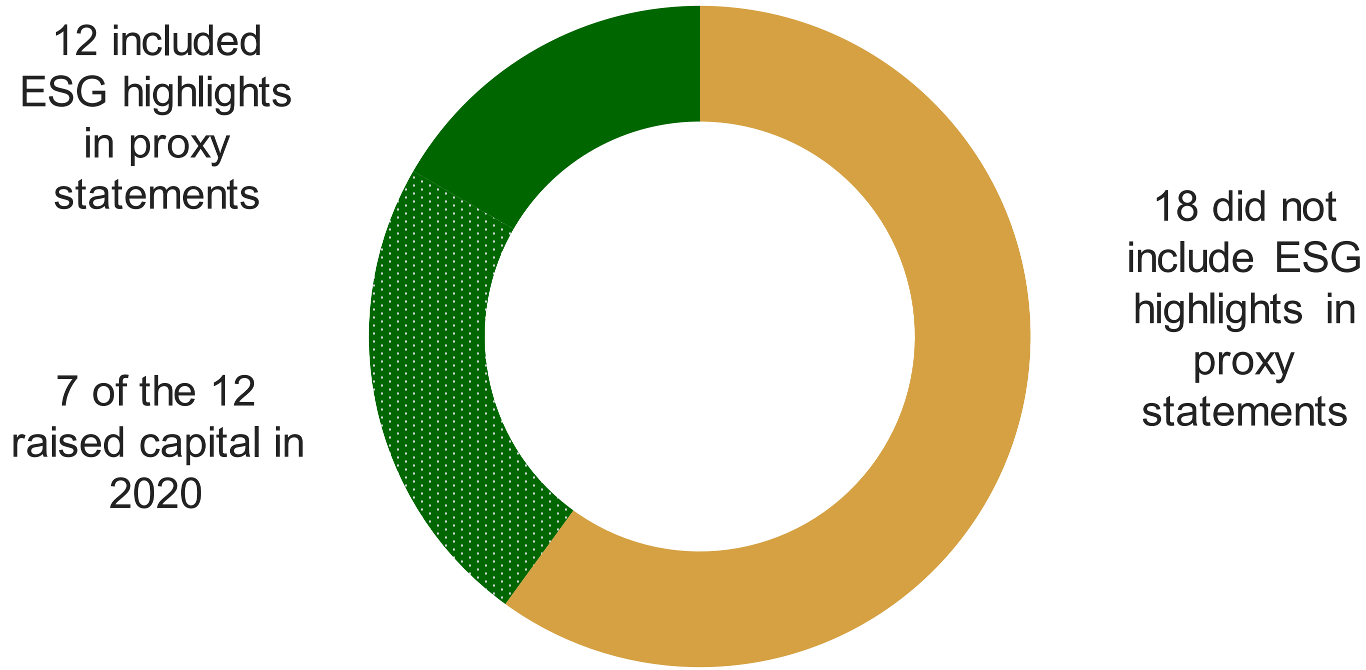
ESG is a Cost of Capital Issue

- ESG disclosures may contribute to a company's long-term financial performance and create competitive advantages, including:
  - A broader and more stable investor base
  - A lower cost of capital
  - Improved recruiting and employee engagement
  - Enhanced social license to operate within communities
  - Deeper stakeholder loyalty
- Disclosures also mitigate regulatory costs and open doors to alternative sources of capital.
- Investors use a variety of ESG valuation metrics to evaluate companies.
  - ESG ratings can vary dramatically between rating agencies due to differences in methodology, subjective interpretation, market cap size, etc.
  - Standardizing industry ESG metrics should improve company reporting and lead to a more productive dialogue with the investment community.

General Trend #2

Companies looking to raise equity or debt find that investors expect some ESG disclosure

Twelve of the 30 sample producers we analyzed included ESG highlights in their 2020 proxy statement and seven of those raised capital or engaged in a significant transaction in 2020.



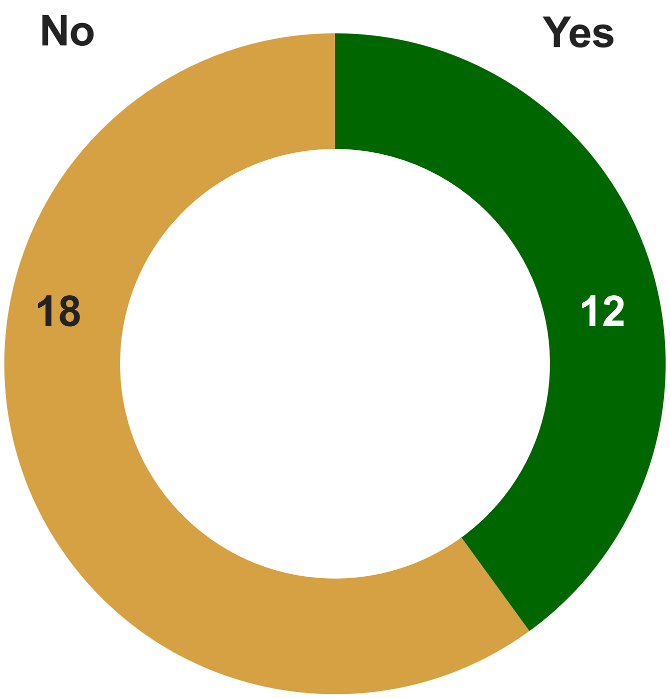
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Proxy Statement Disclosure Trends

Proxy Statement Disclosure Trend #1

Sample producers that disclosed ESG highlights did so in the CEO's letter and / or the proxy statement summary

About one-third of the sample producers included ESG highlights in either or both of them



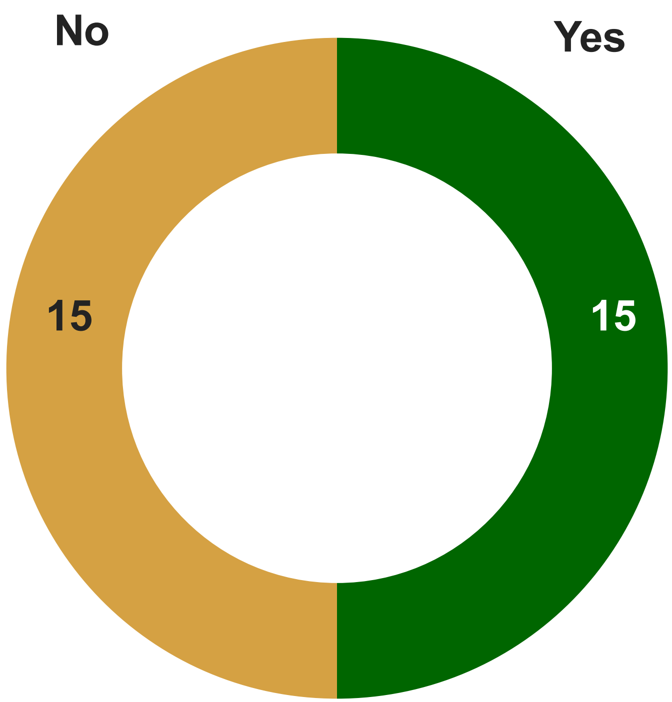
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Even though this disclosure is not required, companies are increasingly including ESG highlights and related initiatives in the CEO letter and the proxy statement summary to showcase their commitment to ESG and include quantitative metrics demonstrating progress toward ESG achievements.

Proxy Statement Disclosure Trend #2

Sample producers are increasingly disclosing ESG strategies in the proxy statement

One-half of the sample producers included qualitative ESG disclosures in the proxy statement



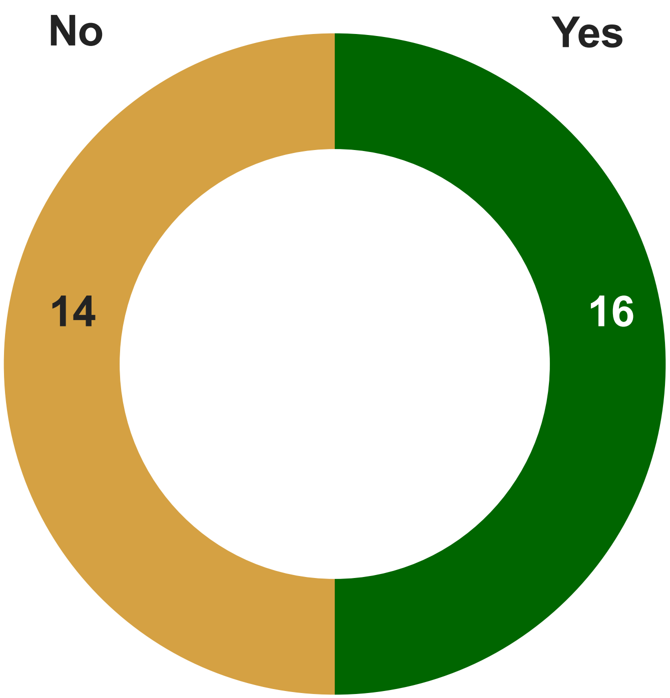
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- While a company may include highlights of the ESG strategy in the proxy statement summary, companies also include further discussion of the ESG strategy in the corporate governance discussion.
- These disclosures tend to be high-level, principles-based disclosures.

Proxy Statement Disclosure Trend #3

Investors are demanding greater disclosure of quantitative metrics

More than one-half of the sample producers disclosed quantitative metrics in the proxy statement



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

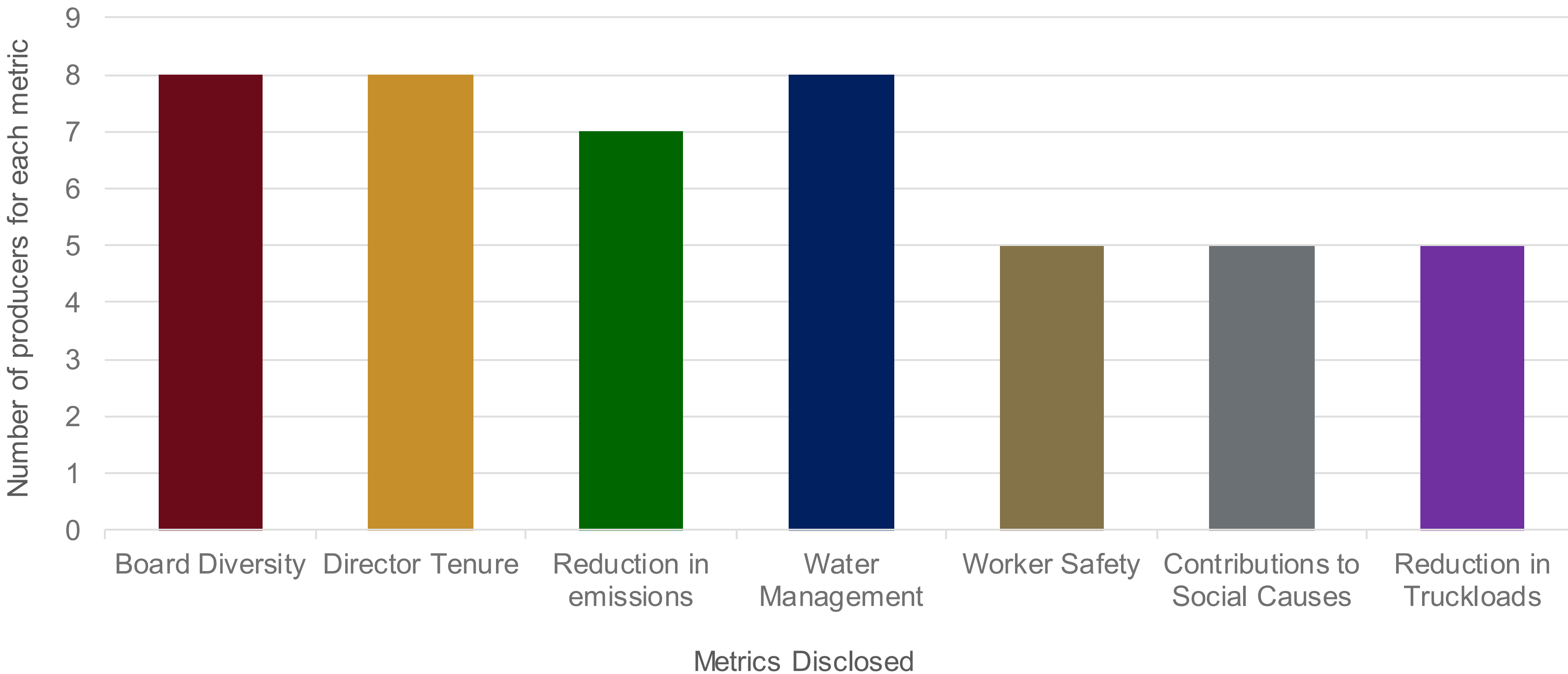
- Investors are pushing for more quantitative metrics, especially those based on a common standard so that they can compare "apples to apples" among different companies.
- We believe that this is an important disclosure trend that will evolve, especially as disclosure frameworks and principles become more standardized.
- For oil and gas companies, investors want to see metrics on greenhouse gas emissions and other environmental matters.
- Note, however, that even if a company is not yet prepared to make these disclosures, there are other quantitative metrics that may be easier to provide: for example, diversity (both gender and race / ethnicity) in the boardroom and the workforce as well as tenure of directors and metrics relating to worker safety.

Proxy Statement Disclosure Trend #3 (continued)

Investors are demanding greater disclosure of quantitative metrics

Different quantitative metrics disclosed

These disclosures are relatively new for many companies and are currently reported by a minority of the E&P company 2020 proxy statements reviewed. We expect this to increase substantially over the next few years.

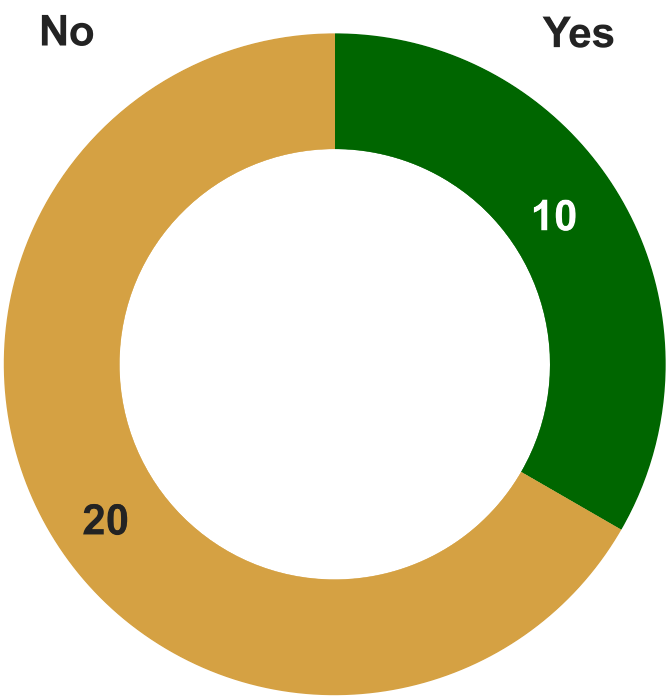


Haynes and Boone and EnerCom Oil & Gas ESG Tracker

Proxy Statement Disclosure Trend #4

Companies are disclosing details of stockholder engagement efforts relating to ESG

One-third of the sample producers discuss engagement on ESG, with 8 of those disclosing specific changes based on stockholder concerns



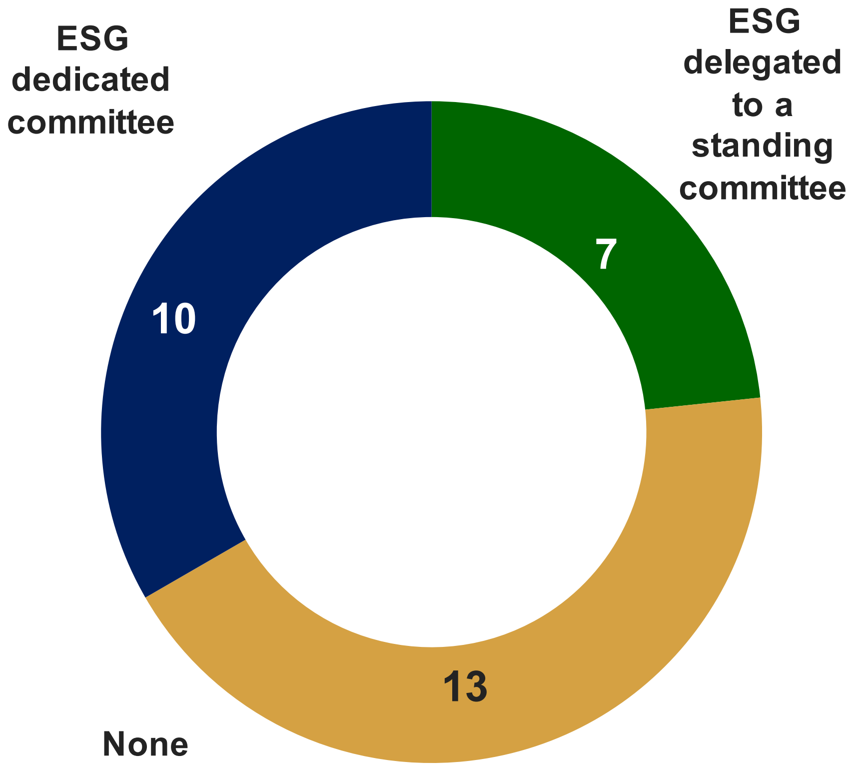
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Although not required, many companies disclose specific shareholder engagement activities, and some address specific investor concerns related to ESG.
- Engaging with stockholders is critical to understand their ESG expectations.

Proxy Statement Disclosure Trend #5

Boards are forming a committee dedicated to ESG oversight

1/3 of the sample producers have an ESG-dedicated board committee and 1/4 disclosed that the nominating and governance committee has ESG oversight duties



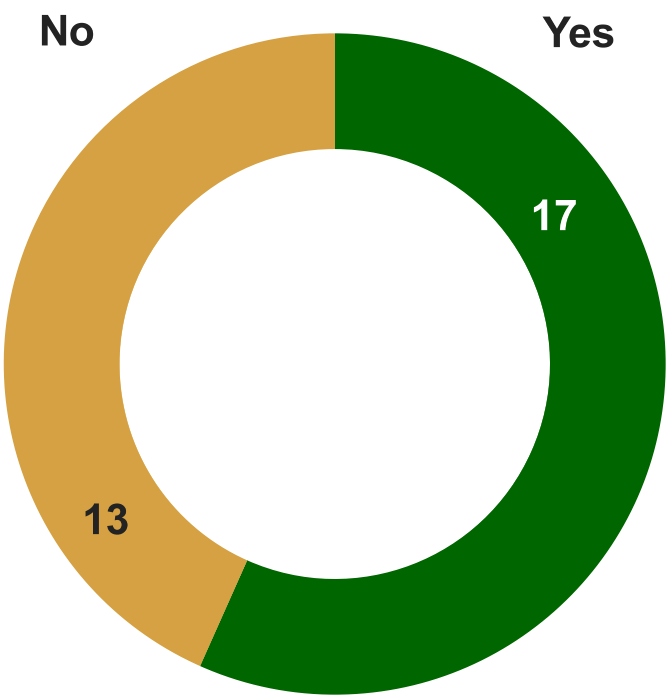
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- In recent years, many public companies have modified their governance structure to specifically address ESG. Some companies have formed a committee dedicated to ESG matters, while others may delegate ESG to the nominating and corporate governance committee or leave ESG oversight to the entire board as a whole.
- We see a trend toward delegating ESG to a board committee that is specifically focused on ESG. Investors also are increasingly interested in knowing that the committee members are independent and have relevant ESG experience and knowledge.

Proxy Statement Disclosure Trend #6

Companies are incorporating ESG metrics into performance targets

More than half of the sample producers included ESG performance metrics in the proxy statement



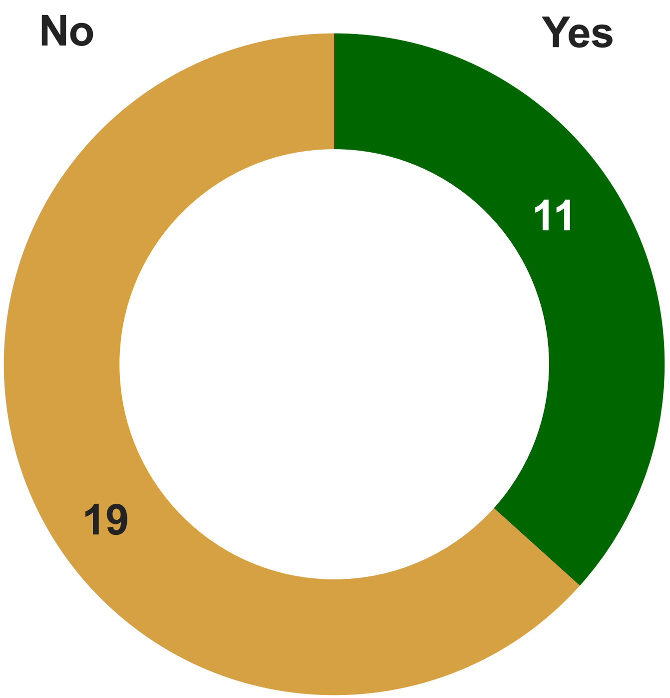
Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Some companies are incorporating ESG metrics into performance targets because investors want to see that executives are incentivized to make progress toward ESG goals.
- For example, in Compensation Discussion and Analysis (CD&A), companies may disclose that the annual performance bonus amount may be adjusted up or down within a range depending on certain ESG metrics.

Proxy Statement Disclosure Trend #7

Sample producers are including ESG skills in a director skills matrix

More than one-third of the sample producers have a skills matrix mentioning ESG



Haynes and Boone and EnerCom Oil & Gas ESG Tracker

- Investors have asked for more disclosure on director skills, including ESG, because they want to know that the board has the right skills to effectively manage ESG oversight.
- Although not required, companies are adding a director skills matrix to the proxy statement, showing the particular skills of each director, including ESG skills.

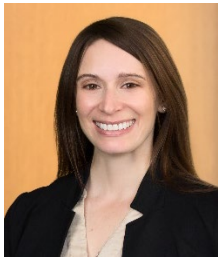
Key Takeaways

- We anticipate more robust ESG disclosures due to growing pressure from stakeholders, investors and regulators.
- 70% of sample producers have an ESG policy.
- Water programs, VOC, methane and CO2 emissions are key environmental issues noted in disclosures while executive compensation and diversity are important components of corporate governance.
- Only 2 of 30 sample producers have a goal of “Net Zero” emissions but many that report GHG emissions also commit to further reductions of direct GHG emissions.
- Companies are more likely to quantify ESG accomplishments (e.g., board diversity, water usage reductions and community investments) than make express commitments to quantifiable ESG goals.
- Companies not yet disclosing ESG policies should consider the pros and cons of such disclosures and commitments moving forward.
- In 2020, approximately one-third of these sample producers’ proxy statements included significant ESG disclosures and we expect it to increase in the future.

Key Contacts

Jeff Nichols
Partner, Co-Chair, Energy Practice and Co-Chair, ESG Practice
Haynes and Boone, LLP
jeff.nichols@haynesboone.com

Phil Lookadoo
Partner, Energy Practice
Haynes and Boone, LLP
phil.lookadoo@haynesboone.com



Deborah Low
Partner, Finance Practice and Co-Chair, ESG Practice
Haynes and Boone, LLP
deborah.low@haynesboone.com

Jennifer Wisinski
Partner, Corporate Practice
Haynes and Boone, LLP
jennifer.wisinski@haynesboone.com

Chris Reagen
Associate, Energy Practice
Haynes and Boone, LLP
chris.reagen@haynesboone.com

Aaron Vandeford
President, EnerCom, Inc.
avandeford@enercominc.com

Dan Genovese
Director, EnerCom, Inc.
dgenovese@enercominc.com

Tyler Jones
Associate Director, EnerCom, Inc.
tjones@enercominc.com