Ms Coisne-Roquette
Audit Committee Chair
Total SA
2, place Jean Millier
La Dv́fense 6
92400 Courbevoie
France
(By email: c/o jemma.burch@total.com)

26 November 2019

Dear Ms Coisne-Roquette,

Assurance that Total is accounting for material climate risks

We are writing as a group of long-term investors to seek assurance that Total SA is incorporating material climate-related risks in its financial statements and associated notes[1]. As you are aware, there has been considerable interest in improving company reporting of material climate risks in companies' narrative reporting in line with the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD). We are writing to ask that, alongside improving narrative disclosure, the Audit Committee ensures Total's financial reporting meets requirements to provide a "true and fair" view of the underlying economic health of the entity.

To provide us with sufficient comfort that Total's accounts are reflecting material climate risks, we would welcome the following disclosures:

- How critical accounting judgments (including, but not limited to, commodity prices, discount rates, and asset lives) have been tested against credible economic scenarios that are consistent with achieving net zero carbon emissions by 2050 to 2070 and any adjustments made to these assumptions[2].
- The results of sensitivity and/or scenario analysis linked to variations in these judgements/estimates, including one that is Paris-aligned if this is not used as the base case.
- Adjustments to dividend paying capacity assessments to reflect energy transition risks to ensure dividends are not paid out of capital[3]; and threshold assumptions that would trigger cuts to dividends.

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[1] The focus of this letter is on decarbonisation, but we are also concerned that the accounts reflect material physical impacts from climate change wherever possible.
[2] The IPCC Special Report "Global warming of 1.5C" sets out the emission reduction trajectories – and net zero requirement by 2050-2070 – consistent with achieving the well below 2C and 1.5C targets agreed in the Paris Climate Agreement.
[3] In line with EC's 2nd Directive (77/91/EEC)

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- Consistency between Total's disclosed climate-related risks set out under "Risk factors" and the assumptions that underpin the accounts.
- Consistency between the assumptions (notably long-term oil and gas prices and carbon taxes) used in the company's capital expenditure planning process and those used in the accounting process (in the case of oil and gas prices, $80/bbl and $7/mmBtu are used in Total's accounts from 2021 rising with inflation from 2024). We can see no mention of the carbon tax used in project assessments ($30-40 per tonne CO_2) being considered in the accounting assumptions, for instance.
- Steps taken by the Audit Committee to ensure material climate risks are properly considered by the external auditor, and the impact that this has had.

In the event you are unable to give assurance that climate risks are being incorporated into the accounting and audit process, we would welcome an explanation.

Context

Under the Paris Agreement, Article 2.1(c) signatories have committed to "*Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*". Based on the latest climate science, the Intergovernmental Panel on Climate Change believes that a well below 2°C pathway will need to get us to net zero carbon emissions between 2050 and 2070.

Accounting numbers are critical in directing finance flows, both by determining the capital available for investment as well as a key driver of executive performance-related pay and thus incentives. This point is emphasised by the TCFD. In the Spring, IIGCC published a briefing paper (attached) setting out the responsibilities for Audit Committees and auditors to consider material climate risks as part of their existing obligations to ensure that a company's financial statements deliver a true and fair view of the underlying economics of the business.

As you will know, in the EU the capital maintenance regime further requires that accounts are drawn up prudently to prevent illegal distributions (i.e. distributions out of capital)[4]. Foreseeable losses or liabilities need to be accounted for, while unrealised gains should not be treated as distributable. These requirements underpin trust in financial markets as they reassure providers of both debt and equity that their capital is protected.

Finally, it is important that key judgments, assumptions, sensitivities and uncertainties are disclosed to shareholders, and that the narrative disclosures in the Annual Report and Accounts (such as the Business Overview and Risks and Controls) are consistent with the numbers presented in the accounts.

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[4] EC's 2nd Company Law Directive (77/91/EEC) sets out that for distributions (e.g. dividends) to be legal, they can only be made out of "profits available for the purpose". This means accumulated realised profits not needed to cover foreseeable losses. In addition, companies must comply with the "net asset restriction", which prohibits distributions that result in net assets falling below the aggregate called up share capital and undistributable reserves.

Our concerns

We have concerns that, at present, Total's accounts may be over-looking material climate considerations, and consequently potentially overstating performance and capital. The most obvious risk is that decarbonisation will reduce long-term demand for fossil fuels likely leading to structurally lower oil and gas prices and thus potentially margins and profitability. Risks of impairments, reduced asset lives and higher asset retirement obligations are potentially material.

Research by Carbon Tracker, using Rystad data, in 2019 suggests that decarbonisation in line with the Paris goals would result in a structural long-term price closer to $40 per barrel than the $80 per barrel Total is using[5]. Aurora Energy Research, a market intelligence firm, produces similar price projections where decarbonisation is delivered in line with the Paris goals. Moreover, Total's own price threshold used in vetting new projects is $50, again suggesting this may be a more sensible view of what the company needs to plan for. While it is impossible to know the future, the Board of directors should adopt a prudent mindset in drawing up its accounts and ensure consistency between the front and back halves of the Annual Report and Accounts.

As shareholders, we would also like to understand the sensitivity of Total's key assets, liabilities and reported equity to lower commodity prices, including a price aligned with achieving net zero carbon emissions by 2050. Further, we would like to understand how these balance sheet impacts flow through to the Profit and Loss account as well as dividend paying capacity.

Uncertainty around the decarbonisation trajectory is not a reason to delay accounting and reporting adjustments. Indeed, it is precisely because of the high level of uncertainty around the transition pathway that Total has a greater responsibility to provide enhanced disclosure around critical judgments and sensitivities to different decarbonisation scenarios, including one aligned with the Paris goals.

Meeting request

We would be grateful if you would share this letter with other members of the Audit Committee and the Lead Independent Director. We would welcome a dialogue with you and the Lead Independent Director on the points raised in this letter.

We are also copying in the lead audit partners, Jacques-Frant¸ois Lethu and Eric Jacquet from KPMG and Yvon Sala˜n and Cv́line Eydieu-Bouttv́ from Ernst & Young, to ensure they are clear about shareholder concerns and can reflect these as they act on our behalf in performing the audit. Finally, it is worth saying that we will be taking your and your auditors'

[5] https://www.carbontracker.org/reports/breaking-the-habit/

response to these enquiries into account as we formulate our voting decisions at the next Annual General Meeting.

We would be grateful if you could contact Natasha Landell-Mills (natasha.landell-mills@sarasin.co.uk) to arrange a meeting.

Yours sincerely,

Natasha Landell-Mills, Partner
Sarasin & Partners LLP

Cllr Doug McMurdo, Chair
Local Authority Pension Fund Forum

Valborg Lie, Stewardship Manager
LGPS Central

Faith Ward, Chief Responsible Investment Officer
Brunel Pension Partnership Ltd

Craig Martin, Chief Pensions Officer
Environment Agency Pension Fund

Edward Mason, Head of Responsible Investment
Church Commissioners for England

Peter Parry, Policy Director
UK Shareholders Association

Dewi Dylander, Head of ESG
Danish Labour Market Pension Fund (PKA Ltd.)

Kirstine Lund Christiansen, Head of ESG
P+(DIP/JOEP)

Ole Buhl, Head of ESG
ATP

Charlotte Sølling, ESG Manager
MP Pension

Eoin Fahy, Head of Responsible Investing
KBI Global Investors

Wim Van Hyfte, Global Head of ESG Investments & Research
Candriam

Tristan Delaunay, Directeur de la gestion
Indep'AM

Rob Fohr, Director of Faith-Based Investing and Corporate Engagement
Committee on Mission Responsibility Through Investment of the Presbyterian Church U.S.A

Nicholas Abel, Sustainable Investment Services
Wespath Benefits and Investments

Tracey Rembert, Director, Catholic Responsible Investments
Christian Brothers Investment Services, Inc.

cc
Patrick Pouyanné, Chairman and Chief Executive
Patrick Artus, Director, Audit Committee
Maria van der Hoeven, Director, Audit Committee
Patricia Barbizet, Lead Independent Director
Jacques-Frant¸ois Lethu and Eric Jacquet, KPMG
Yvon Sala˜̈n and Cv́line Eydieu-Bouttv́, Ernst & Young
Bruce Duguid, CA100+ co-lead investor (EOS at Federated Hermes, on behalf of its stewardship clients)