1. **Company Overview**
2. **Shell Company**

Shell’s full name is Royal Dutch Shell. They are an integrated oil and gas company. The Royal Dutch Petroleum Company was founded in the Netherlands in 1890. Through the amalgamation of their competitor named Trading Company Ltd of the United Kingdom, the Royal Dutch Shell Group was created in February 1907. It’s headquartered in the Netherlands and was incorporated in the United Kingdom. Shells principal subsidiary is in the United States, and it one of the largest corporations in the nation. Shell is one of the six oil and gas super powers and it ranks in as the fifth-largest company in the world.

Shell is organized into four major business groupings. The first segment is “ Upstream International” which manages the upstream business outside the Americas. The second part is “Upstream Americas”, it manage upstream business in North and South America. The third one is “Downstream”, which manages Shell’s manufacturing, distribution and marketing activities for oil products and chemicals. The last part is “Projects and Technology”, it manages the delivery of Shell’s major projects, provides technical services and technology capability covering both upstream and downstream activities. Shell’s primary business activities include the management of oil explorations, harvesting, refining, transporting and marketing the end product.

Shell’s long-term goals include expanding it energy operations and moving toward cleaner energies. It plans to explore renewable energy sources like solar and wind, which could provide up to 40% of energy globally by 2060. Shell plans to cooperate with governments on climate and environmental issues and invest in carbon capture technology. Transportation is essential to modern living. Shells energy innovations help people and goods move around more cleanly and efficiently. (http://www.shell.com)

1. **Total Company**

Total is one of the largest multinational integrated oil and Gas Companies in the world. Its business scope involves oil and gas development, mining and refinement, distribution, service stations and marketing petroleum products.

Total founded on the 28th of March 1924, as the Compagnie Française des Pétroles (CFP), which means the "French Petroleum Company”. During this period petroleum was (and still is) an important resource. When Royal Dutch Shell planned to form a partnership with the French in order to create a new French oil company, the French Prime Minister, Raymond Poincaré, refused. In 1991 the companies name was changed to Total and it became a publicly traded company. Total’s worldwide presence today includes 100,000 employees in more than 130 countries. Total is also a world-class natural gas operator and a global leader in solar energy through it’s affiliate SunPower. It has oil and gas production facilities spread across the world, including operations in in Africa and Europe. It’s oil production is nearly 2,347 KBOE per day.

Total has devoted itself to becoming a responsible energy provider by providing affordable energy and working to solve the challenge of climate change through investments in clean energy such as solar power. It’s three goals are safer energy, cleaner energy, and more affordable energy. (Total.com)

1. **Investing and Financial Activities**

By examining the data presented on the Statement of Cash Flows from each company, which includes the net cash used in investing activities, net cash from/(used in) financing activities, and the increase/(decrease) in cash and cash equivalents at the end of the year, an analysis can be made of which company is more active in investing and financing activities. Shell was more active than Total. For example, Shell spent much more money in financing activities. In the 2015, they had a net gain of 3.8 billion from financing activities, while Total only gained $100 million.

Both companies spent heavily in investing activities including purchases of liquefied natural gas companies. Shell spent about $50 billion money to purchase BG Group, which is an industry leader in liquefied natural gas in the UK. During 2015 Shell sold significant amounts of oil fields and gas stations to help finance the purchase of BG. This contributed to their substantial increase in cash and cash equivalents. It was an important reason why they didn’t earn as much profit in the 2015 and their price per share and earning per share also decreased significantly. Low prices for oil and natural gas were responsible for a drop in Shell revenues from 2014 to 2015. Shell was the only big oil company to make such a bold move as buying BG Group for cash and shares worth about $50 billion. Shell believed this decision would help them become a world leader in natural gas. (All information taken from Statement of Cash Flow- Shell Annual Report)

Compared with Shell, Total is more stable and safe. They purchased many small companies. For example, Total announced last December that they are acquiring around 23% of Tellurian Investments for 207 million dollars. This purchase will allow them to expand their liquefied natural gas portfolio. They also sold North Sea midstream assets for $711 million. Totals strategy was to make small investments and sell off their less profitable assets. They did not have any big investing activity between 2014 and 2015 because oil prices dropped during those two years. That’s an important reason why Total’s EPS didn’t have big changes. Moreover, Total also didn’t have large fluctuations in cash and cash equivalents. Total was stable in these two years. (Statement of Cash Flows- Total annual report.)

1. **Corporate Social Responsibility**

One of the most critical challenges the petroleum industry faces is protecting the environment and contributing to the community while remaining economically feasible. Shell and Total both offer solutions and tout their investments in clean energy. Reliance on natural gas is a common theme in both of their strategies. The companies also make significant charitable donations. What the companies don’t mention in their reports is their efforts to fight against environmental regulations through political lobbying.

In their 2015 sustainably report, Shell acknowledges the issue of CO2 emissions and outlines its strategy for combating climate change. The language they use is in encouraging, they advocate briefly for government carbon pricing and getting to zero net emissions as soon as possible. (Pg.13) The core of their plan of action consists of investments in natural gas and carbon capture and storage, while also assisting in communities.

Natural Gas produces around half as much CO2 as coal. Shells production is now 50% natural gas, and they have significant new investments in liquefied natural gas, which has a lower the energy costs from transportation. (Pg. 17) The Chinese government’s Development Research Centre has been working with Shell to open the country to new investments in natural gas infrastructure and encourage new market entrants through market liberalization. (Pg. 13)

The other crucial element in their strategy is carbon capture and storage technology. Shell owns a majority share in a joint venture called Quest Canada, which is developing one of the first commercial scale carbon capture facilities. Quest has helped reduce CO2 emissions by 315 kilotons since its beginning. It operates by separating CO2 from gas and then storing it in a layer of rock 2km underground. (Pg. 19)

Shell emphasizes their social investments that benefit the communities in which they operate. In 2015 they spent close to $100 million on community development, disaster relief and education. They operate a program in 15 countries called Livewire, which helps entrepreneurs turn their ideas into businesses. The United Nations Development Program has been working with shell to renovate schools and playgrounds in Iraq. (Pg.40)

While Shell does acknowledge that climate change is an issue, the report does not make it clear that they are addressing the problem with the kind of scale and urgency it necessitates. In the External review committees assessment of the report it is pointed out that Shell underestimates the risk that natural gas poses due to methane emissions. (Pg. 55) There are brief mention of investments in solar, hydro and other renewables in their report, but we are left with an overall impression that in there is not enough emphasis on making changes on a meaningful scale. Shell has only reduced its greenhouse gas emissions by 4% since 2008. (Pg. 52)

In their efforts to combat climate change, Total has reduced their greenhouse emissions by an impressive 24% since 2008 by increasing the efficiency of their operations. Sulfur dioxide emissions are also on track to be reduced by 20%. (Total’s Sustainable Growth Report Pg. 51) Like Shell they also have shifted majorly towards natural gas, an achievement the company calls their main contribution to the fight against climate change. (Pg. 11)

A key part of Total’s energy transition plan is investing in solar power. Total’s affiliate company, SunPower, has become one of the largest solar companies. Currently their plant in Chile generates enough power for 70,000 homes. The power produced will be sold directly without subsidies, and they are planning on tripling cell manufacturing to keep up with demand. (Pg. 25)

Community development spending by Total has been increasing steadily. It was up to 459 million Euros in 2014. Their loan programs support over 100 small businesses, and they also fund scholarships for over 10,000 students around the world. (Pg. 59)

Despite the rhetoric they present to the public, behind the scenes both companies are involved in lobbying governments for decreased regulation. According to Influence Map, an independent non-profit organization who access corporate influence on public policy, Total holds executive authority over The European Chemical Industry Council, an organization that has consistently lobbied against lower E.U. carbon emissions targets. (<http://influencemap.org/company/Total-5a9f086d9a2ce300529ea4eb020d1aa3>) Influence Map’s report on Shell Reveals that the company spent $22 Million on obstructing climate change progress in 2015 alone. This figure includes direct political contributions, legislative lobbying and contributions to organizations such as the American Petroleum Institute, which has attempted to cast doubt on climate science.

(<http://influencemap.org/site/data/000/173/Lobby_Spend_Report_March_2016.pdf>)

On the surfaces, Shell and Total both claim to be taking big actions towards reducing pollution and climate change. Both companies have made some efforts but Total has reduced green house gas emissions much more effectively. Shell also appears to invest more in behind the scenes lobbying against climate regulations, making Total the more socially responsible company.

1. **Current News**

Shell has come under scrutiny form environmental groups after journalists from The Guardian uncovered a public information film that Shell created in 1991. The film, entitled Climate of Concern, warned of the dangers of man-made climate changes long before the issue was brought to forefront of public attention. The criticism is that in spite of Shell’s early knowledge of the issue, it invested heavily in artic oil and other highly polluting operations. The issue was summarized nicely by US environmentalist Bill McKibben, who said “The fact that Shell understood all this in 1991, and that a quarter-century later it was trying to open up the Arctic to oil-drilling, tells you all you’ll ever need to know about the corporate ethic of the fossil fuel industry. Shell made a big difference in the world – a difference for the worse.” (https://www.theguardian.com/environment/2017/feb/28/shell-knew-oil-giants-1991-film-warned-climate-change-danger)

In January, Total won an award for corporate investor of the year for its investments in renewable energy start-ups by its venture capital funded called what Total Energy Ventures. The fund has been active since 2008 and makes investments wind power and other renewables. (http://www.total.com/en/news/total-wins-corporate-investor-year-award-cleantech)

Total has been expanding their operations in Africa. They currently have over 4,200 service stations on the continent and they plan on adding several hundred more within the next few years. (<http://us.total.com/en-us/making-energy-better/worldwide-projects/multi-service-stations-help-drive-growth-africa>)

1. **Other Items of Concern**

A key point for investors to examine is how the company presents its long-term strategy. Shell’s strategy seeks to strengthen its leadership in the oil and gas industry, while positioning the company for growth as the world transitions to a low-carbon energy system. They emphasize their dedication to safety and environmental and social responsibility. Shell wants to invest in and produce more from cleaner energy sources such as natural gas. As environmental concerns become greater, the future will inevitably belong to companies that can adapt to new energy sources. It is well known that eventually all oil reserves will run out, Shell fully intends on adapting to that future.

(<http://www.shell.com/investors.html#iframe=L1NvbHV0aW9ucy9TaGVsbC8yMDg4L21pbmlxdW90ZTIuYXNweA>)

Total's Shareholder Relations Department received the Gold Trophy in 2014 and the "Communication prize" from 2014 and 2015. Institutional and private investors have expressed that they felt that Total was the company with the best communication towards them. (Boursorama.com) Communication with Investors is important, that’s why it should be of concern to prospective investor when a company wins an award like this. They not only earn money, but also protect their investors and keep them informed. (<http://www.total.com/en/investors/individual-shareholders/individual-shareholder-relations/recognized-commitment-quality/prizes-won>)

1. **Company Comparison**

When we began this project, everyone thought that Shell would be the better investment. This was due to the fact that we knew very little about Total and Shell is a brand we see everywhere around us. We now believe that Total is the better choice. While the companies preformed similarity in some areas, Total was able to deal with the drop in oil prices with out allowing a drop in EPS or profit percentage. Shells decisions to make large investments In the middle of a massive oil price crisis lowered their profits, earning per share and contributed to a drop in stock prices. Total has also adapted to the challenges of climate change more effectively than shell.

In the category of debt ratios, both companies are similar. Both of the companies have the same debt and debt to equity ratios for 2014 and 2015. At the end of 2014 Total had 0.59 for their debt ratio and debt to equity ratio. Shell had 0.51 for their debt ratio and debt to equity in the same year. In 2015, there was a slight decrease in Total’s debt ratio and debt to equity to 0.57. Shell’s slightly increased in to 0.52. Overall their debt is similar enough that it did not factor heavily into our choice.

Total is better at collecting their accounts receivable. The gap closed a little in 2015. Shell’s accounts receivable ratio, had an increase from 0.05 in 2014 to 0.08 in 2015. Totals decreased slightly in the same period from 0.16 to 0.11.

Shell made some poor decisions in 2015, which contributed the deterioration of key performance ratios. This includes their decision to make large investments during the oil price down turn, such as the $50 billion purchase of BG. Also, Shell kept their fuel prices stable when selling their oil to their consumer while the rest of the market dropped their prices, contributing to a drop in total assets. The effects of this can be seen in their cash ratio; the company’s ability to pay its current liabilities off in cash diminished significantly in 2015. Their cash ratio increased from .25 to .45. Shell’s return on assets also suffered a 75.5% decrease. Meanwhile, Total, who decided to stay conservative on investments that year, had a cash ratio that remained stable; it decreased slightly from .47 to .46. Total’s ROA actually increased by 18.8%

These same factors also contributed to an 86.8% drop in earnings per share and a 79.3% decrease in profit margin for Shell. Total was able to deal with the drop in oil prices without allowing a drop in EPS or profit margin percentage. Totals increased by 15.5% and 77.5% respectively. Totals success came form a 12% increase in production from more profitable sources such as their onshore projects in Angola and boosting refinery input from their a joint venture project with the company ‘Saudi Aramco’ in Saudi Arabia**.** By focusing on the proper areas instead of over-spending, Total was able to come out ahead in a year Shell could not. (https://www.fool.com/investing/general/2015/07/29/total-sa-just-showed-big-oil-how-to-handle-a-marke.aspx)

Another important factor to consider is that Total has reduced its green house gas emissions by 24% since 2008. (Total’s Sustainable Growth Report Pg. 51 Shell has only reduced theirs by 4%. (Shell’s Sustainability Report Pg. 11) This shows that Total is able to adapt to changing environmental goals and regulations. As more governments adopt carbon taxes and emissions trading regulations, the cost of pollution and emissions will increase substantially in years to come. Totals significant solar investments also point towards their ability to adapt.

In conclusion, Total has the ability to maintain profits and grow the company in times of extremely low oil prices. Total also has a superior track record on social responsibility. These factors are strongly evident in the financial ratios we analyzed. We now believe that Total would be a far better investment.

Note: All ratios are calculated based on end of the year (31st December 2014 and 31st December 2015)

<http://www.total.com/sites/default/files/atoms/files/form_20-f_2015_web_version.pdf> (Pg1)

<http://reports.shell.com/annual-report/2015/strategic-report/selected-financial-data.php>