

Repsol

Repsol became the first oil and gas company to commit to a net-zero goal by 2050, supported by a decarbonisation pathway with interim targets, setting a higher benchmark for the industry. EOS has engaged with the company since 2013 on its climate action and targets.

Background

Repsol is a Spanish headquartered energy company operating across upstream and downstream oil and gas, chemicals, renewables and other energy services including electric vehicle charging. It has an average net production of around 700,000 barrels of oil a day and a refining capacity of around 1m bbl/day. The company has also committed to have 7.5GW of low carbon generation capacity by 2025. Repsol has around 25,000 employees across 34 countries and operates nearly 5,000 service stations across Spain, Portugal, Peru, Italy and Mexico.

Our engagement

Our engagement with the company focused on climate action began in 2013 in a meeting with the joint CEO and chair and other senior executives to discuss its sustainability strategy. Engagement intensified during 2015 in the run up to the Paris Agreement, with nine interactions that year.

From 2015 through 2019 we had a sustained focus on five key aspects of climate action: scenario analysis and the disclosure of resilience to Paris-aligned decarbonisation, the alignment of strategy and targets with the goals of the Paris Agreement, internal carbon price assumptions and their use in investment decisions, the disclosure of a carbon intensity indicator and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In 2019, following a discussion with the CEO at the Vatican Dialogue Summit between oil and gas and finance CEOs, we wrote to encourage the company to pursue a strategy to

Sustainable Development Goals



Engagement objective

Environmental:

The company has a clear, consistent and integrated climate strategy and reports accordingly.

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decarbonise its energy products, and therefore reduce scope 3 emissions.

In early December 2019 we again welcomed the CEO, CFO and the executive head of sustainability to our offices where we discussed the extent of alignment of the company's strategy with the Paris Agreement. We discussed required levels of capex into new energy businesses, and the need to demonstrate that broader capex was assessed for alignment to Paris, along with transparency of the criteria. The company acknowledged the benefit of this to future-proof investments and be credible on a Paris-aligned strategy. The company also acknowledged the sector-wide inconsistency in balance sheet audit oil price and practical investment assumptions.

In 2020, together with our co-lead for the company under Climate Action 100+, we submitted a statement to the company's annual meeting. We congratulated the company on

its new net-zero commitment and asked whether the current oil price situation and pandemic crisis would have a material impact on the climate change strategy and commitments to invest in low-carbon solutions. We were reassured to hear the company reaffirm its commitment to leading the energy transition.

Repsol has listened to our feedback, requests and suggestions and raised them with the board, and has made continual progress on its approach to climate action.

We have enjoyed a regular and open ongoing dialogue with the company, including CEO. The company has been keen to learn how best to communicate with shareholders on climate change, has listened to our feedback, requests and suggestions and raised them with the board, and has made continual progress on its approach to climate action.

Changes at the company

At its 2017 Sustainability Day, we welcomed the company's commitment that, from 2018, it would start using a single internal carbon price across the group, to be applied to all new investments, and which increases over time to 2025 and further still towards 2040.

In 2018, we welcomed the company's strategic update, which set a path to climate transition by capping production and committing significant capex to low-carbon business, including some renewables. Since its 2018 integrated management reporting the company has disclosed a carbon intensity indicator for the energy it supplies, and a goal to reduce this intensity in line with the International Energy Agency's Paris-aligned Sustainable Development Scenario. This indicator has become a central pillar of its net-zero goal.

We continue to welcome the significant advances being made in climate disclosure. In its 2018 and 2019 integrated management reports, the company provided greater detail on the short, medium and long-term risks and opportunities from low-carbon transition scenarios out to 2040. These are informed by analysis against the scenarios developed internally by the company that align to a two-degree pathway. Greater disclosure on risks, strategy and action has given us greater comfort on the company's resilience to low-carbon transition scenarios.

In December 2019 Repsol became the first oil and gas company to commit to a net-zero goal¹, supported by a decarbonisation pathway with interim targets. With this, Repsol set a higher benchmark for the industry and had an impact on the climate action agenda beyond the company.

At the same time the company assumed a new oil and gas price scenario consistent with scenarios aligned to the Paris Agreement's climate goals. The resulting adjustment to the value of some assets created a substantial post-tax impairment charge.

We are seeing Repsol's strategy increase focus on new low-carbon businesses such as renewable electricity generation and gas and electricity marketing, towards which it will transition its portfolio over time to achieve its net-zero goal.

Next steps

We look forward to reviewing the company's next strategic plan covering the period 2021-2025 that will be released in November 2020 and the next steps in transitioning towards the net-zero goal. Alongside this strategy, the company will confirm how its climate targets will be structured within its long-term remuneration policy that applies to executives and leaders, including the CEO and senior executives.

The engagement between EOS at Federated Hermes, the broader Climate Action 100+ engagement group and the company continues to advance and now has a focus on implementation of the net-zero pathway. In particular it will focus on:

- 1. Actions required to implement the net-zero commitment**
- 2. Possible actions and commitments related to the processing and sale of energy acquired from third parties**
- 3. Governance of the pathway to net-zero and**
- 4. Disclosure on alignment of business decisions with the commitment, and implementation progress, as part of continued evolving reporting in line with the intent of the TCFD.**



Andy Jones
Engagement
EOS

¹ Net-zero emissions by 2050 for all produced energy.

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