

EOS Case Study

December 2020

Rolls-Royce

Despite the immediate pressures of the coronavirus crisis, Rolls-Royce's CEO has reiterated that the climate emergency has not waned. This case study focuses on EOS' engagement with the company over the past twelve months as the lead signatory as part of the Climate Action 100+.

Background and company overview

Rolls-Royce is a civil aerospace, power systems and defence company headquartered in the United Kingdom. The Climate Action 100+ engagement with Rolls-Royce has been led by EOS at Federated Hermes, along with seven additional collaborating signatories to Climate Action 100+.

Engagement continues to be considerate of the challenges faced by the company due to the coronavirus pandemic, in particular a significant drop in revenue due to reduced flying hours of planes using its engines. This has led the company to seek additional fund raising via a recapitalisation package which includes a rights issue, a bond offering and a new term-loan facility.

Our engagement through Climate Action 100+

A constructive dialogue between Climate Action 100+ signatories and the company has been ongoing since the launch of the initiative in late 2017, including with internal specialists, senior management and the chair of the board. There were three meetings with the company in the past twelve months including a visit to a production facility to meet with additional internal experts. At the company's 2020 annual general meeting, EOS at Federated Hermes, the lead signatory, welcomed the company's goal of net-zero emissions by 2050 and presented questions related to engagement priorities. The CEO reiterated that, despite the immediate pressures of the coronavirus crisis, the climate emergency had not waned, the company remained committed to playing a leading role in enabling the vital sectors in which it operates to get to net zero emissions by 2050 and that this must be a core part of the post-coronavirus recovery of aviation in particular.

Engagement objective



Environment:
Climate change

Sustainable Development Goal:



Ongoing engagement priorities with the company covered during the year have included:

1. Encouraging the setting of new interim targets, including goals to address Scope 3 produce use emissions, in line with a pathway to net zero.
2. Gaining reassurance over climate-related scenario analysis undertaken and its integration into business planning.
3. Requesting the company to continue to advance its climate-related financial disclosure, and specifying where further detail is needed.
4. Asking for the company to consider tying executive compensation to climate performance metrics.

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Progress to date has included:

- Rolls-Royce continued to advance its reporting against the TCFD recommendations in its 2019 Annual Report¹, published in Q1 2020.
- In June 2020, Rolls-Royce announced² a commitment to net-zero emissions in its operations and facilities by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. The company indicated it would pursue several measures to reach its new targets, including:
 - Continued R&D for lower-carbon technologies;
 - Improving the energy efficiency of engines;
 - Working with the fuels industry to increase the availability of lower-carbon alternative fuels;
 - Leading a consortium to build small modular nuclear power stations;
 - Accelerating the development and deployment of disruptive new technologies (e.g. electrification of flight and hybrid electric rail, marine, and aviation technologies);
 - Producing technologies that could increase uptake of renewable energy (e.g. microgrids);
 - Using 100% renewable energy in its own operations; and
 - Implementing closed-loop manufacturing techniques on high-value metals.

Next steps

Among other topics, engagement in 2021 will cover the company's roadmap to net-zero and interim targets in particular in a post-coronavirus recovery in the aviation industry, the integration of climate-related scenarios and goals into business planning, further improvements to climate-related disclosure where necessary, the integration of executive compensation with the net zero pathway and the governance of direct and indirect policy advocacy in line with the company's support for the goals of the Paris Agreement.

Adapted from the case study originally published in the 2020 Climate Action 100+ Annual Progress Report.



Andy Jones
Engagement
EOS



EOS at Federated Hermes, the lead signatory, welcomed the company's goal of net-zero emissions by 2050.

¹ <https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf>

² <https://www.rolls-royce.com/media/press-releases/2020/05-06-2020-rr-puts-net-zero-carbon-by-2050-at-the-heart-of-future-innovation-and-growth.aspx>

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