

ENGAGEMENT FACTSHEET

CEZ

ENGAGEMENT RATIONALE

CEZ is an electric utility company that also carries out some mining activities. It uses coal for a significant proportion of its energy. As long-term investors, we are interested in the sustainable value and performance of CEZ, and we would like to have a better understanding of how CEZ manages the risks and opportunities of climate change.

BACKGROUND

Coal is one of the most carbon-inefficient sources of energy (almost twice as inefficient as natural gas), and is increasingly unattractive to investors. According to our data, 50% of CEZ's installed capacity relies on coal, and 43% of its revenue is generated from coal-fuelled power. CEZ also runs some coal-related mining activities in the Czech Republic, where the particular type of mined coal is lignite – the lowest rank of coal and one of the most environmentally unfriendly ways to generate energy.

THEME FOR ENGAGEMENT

- x Climate change strategy

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ENGAGEMENT OBJECTIVE

- x For CEZ to establish policies and targets to reduce the percentage of coal/lignite coal in its energy mix, and/or reduce the overall carbon intensity of energy produced by June 2020.

DEVELOPMENT



MILESTONE



ENGAGEMENT RESULTS

- x In 2018 we engaged CEZ to discuss its governance of climate change and the actions the company has taken so far to address it. The company stated that the board and CEO are responsible for the climate change strategy, while the Head of Generation is responsible for planning the shut down of plants. CEZ is committed to no further coal-related capital expenditure, and is willing to make this public.
- x The refurbished plants will be completely phased out in 30-40 years' time (by around 2050), with emission reductions mostly coming from these shutdowns.
- x The company has not yet set any mid-term goals. We have stressed that these are important to us, and CEZ has said it will publish these targets in its next reporting cycle.
- x CEZ says it will publish its scope 2 emissions in the current year. scope 1 emissions cover all countries where CEZ operates, while scope 2 covers the Czech Republic, Bulgaria, and Romania, where CEZ has distribution businesses. CEZ did not disclose data to CDP in 2017, but has promised to submit its disclosure in the coming year.

NEXT STEPS

- x Follow up on the mid- and long-term targets and commitments of CEZ.
- x Follow up with investors taking part in the Climate Action 100+ initiative.
- x Follow up on CEZ's commitment to respond to the CDP.

SDG



COMPANY

CEZ is an international utility company with a strong position in Central and Eastern Europe, and a growing presence in Western Europe. The Czech Republic is the most important market for CEZ, where the company is vertically integrated.

COUNTRY

Czech Republic

SECTOR

Utilities

MARKET CAP

Large cap

ISSUE

Coal is recognised as the most inefficient and polluting source of energy. As such, regulations around coal are expected to become tougher in the coming years, with coal losing value and potentially becoming a 'stranded' - or unviable - asset in future. Asset managers are therefore taking action to lower their exposure to coal, or to engage with companies on their long-term plans to reduce their exposure to this fossil fuel.

MATERIALITY

Carbon emissions are considered one of main causes of climate change. In order to meet the Paris Agreement and keep global warming below 2 °C, efforts must be made to reduce CO₂ emissions by switching to more eco-friendly solutions – particularly in carbon intensive sectors such as utilities, materials, and energy.

MSCI ESG RESEARCH

UN Global Compact: Pass
ESG Rating: A