

Annex
to Bank of Russia Letter No. IN-28-3/96
of 16 December 2021

**Recommendations
for the Boards of Directors (Supervisory Boards)
of Public Joint-Stock Companies on the Accounting for Factors Related
to the Environment, Social Development and Corporate Governance (ESG Factors),
and Sustainable Development Issues**

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Background

Matters that concern the impact of environmental factors (including those related to ecology and climate change), social factors and corporate governance factors (together referred to as “ESG factors”) on companies’ activities, as well as the companies’ impact on the environment, social development and economy are becoming an integral part of governmental policies, business and investment standards, and current consumer trends. Global changes in legal regulation, behaviour of investors, clients, contractors and consumers of the companies’ products and services related to the accounting for ESG factors and sustainable development issues are fundamental and should be duly considered by the companies and their governing bodies, primarily boards of directors.

The growing importance of ESG factors and sustainable development issues for international business, public life and politics is reflected, inter alia, in the initiatives related to climate change (e.g. the Paris Agreement²), and sustainable development (e.g. the United Nations Sustainable Development Goals [SDGs]³), as well as the principles of “stakeholder capitalism” set forth by the World Economic Forum in the Davos Manifesto 2020⁴.

In addition, a global redistribution of capital flows in favour of the markets that promote sustainable development goals is currently underway. One of the reasons behind this process is the expansion of responsible investment⁵. Responsible investors analyse to what extent a public-joint stock company (the “Company”) accounts for ESG factors, issues related to the Company’s impact on the environment, social development and economy, and evaluate it in terms of the Company’s ability to create long-term value⁶, which may affect the investment attractiveness of the Company’s securities⁷. By the end of Q3 2021, assets under management of the signatories to the Principles for Responsible Investment (PRI)⁸ issued by the PRI Association exceeded 121 trillion US dollars⁹.

Accounting for ESG factors and sustainable development issues is also relevant in the context of the transition from the old paradigm, in which generating profits and value for shareholders was viewed as the corporation’s main objective, to a new one, where the corporation’s activities are aimed at creating sustainable value for all stakeholders. On the international level, this transition was declared in the Davos Manifesto 2020. The focus on creating sustainable value for all stakeholders envisages not only traditional

¹ The term “ESG factors” was first used in the report “Who Cares Wins. Connecting Financial Markets to a Changing World” issued in 2004 under the auspices of the United Nations Global Compact at the urging of the then UN Secretary General Kofi Annan.

² The Paris Agreement of 12 December 2015 adopted at the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change and signed by the Russian Federation in New York on 22 April 2016.

³ Sustainable development goals are envisaged in the Resolution “Transforming our world: The 2030 Agenda for Sustainable Development” adopted by the United Nations General Assembly on 25 September 2015. https://unctad.org/system/files/official-document/ares70d1_en.pdf/.

⁴ Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution. <https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/>.

⁵ Responsible investment is a conceptual approach to investing, under which investment activities as well as assessment and monitoring of investments involve accounting for ESG factors, the risks and opportunities that such factors create for investments, as well as the diligent exercise of the investor’s rights and communication with the companies that are invested in. Moreover, for institutional investors responsible investment corresponds to their fiduciary duties to act reasonably and in good faith in the interests of their clients and beneficiaries, contributing to better reliability and profitability of investments for these persons. See also Bank of Russia Information Letter No. IN-06-28/111, dated 15 July 2020, “On recommendations for the implementation of the principles of responsible investment” and Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, “On recommendations for public joint-stock companies on the disclosure of non-financial information pertaining to their activities”.

⁶ The concept of long-term value creation includes focusing on a long-term perspective and creating value in the long term. The term “short-termism” refers to an excessive focus on short-term goals, e.g. on revenue or profit growth in a certain quarter or year.

⁷ Report on Sustainability-related Issuer Disclosures. Final Report. OICU-IOSCO. The Board of the International Organization of Securities Commissions. June 2021. P. 26. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf/>.

⁸ The PRI Association was created in partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) and United Nations Global Compact for the purposes of developing a methodological basis for responsible investment as an instrument for redistributing capital flows to finance sustainable development.

⁹ Source: <https://www.unpri.org/signatories/signatory-resources/quarterly-signatory-update/>.

approaches to defining value for shareholders but also analysing and prioritising interests of other stakeholders, namely, determining their relevance for setting the corporation's mission, goals and strategy, as well as assessing the ways of finding the right balance between the stakeholders' respective needs and expectations¹⁰. What is important for other stakeholders (employees, trade unions, local communities, etc.), is the kind of influence that the corporation's activities have on the environment, society and economy, as well as the role that the organization plays in upholding universal human values formulated in the SDGs. It should be noted that matters related to accounting for the stakeholders' needs and expectations are directly linked to creating value for shareholders, as other stakeholders' attitude towards the corporation may affect long-term value creation.

The impact of ESG factors and sustainable development issues may vary across companies. However, regardless of the scale and nature of the Company's activities, sector and/or other characteristics, trends in accounting for ESG factors and sustainable development have an impact on the activities of any Company, whether by posing risks or by creating new opportunities and, therefore, they should be considered and assessed by its shareholders and the board of directors as well as executive governing bodies.

Adapting the Company's activities to account for ESG factors and the Company's contribution to achieving the SDGs is a complex task requiring a systematic, consistent and coordinated approach. Accomplishing such a task should not be limited to assigning (appointing) a separate structural unit (an official) in the organization to be responsible for issues related to ESG factors and sustainable development, but should rather involve active participation of all the Company's governing bodies within the scope of their respective competence.

Determining the priority areas of the Company's activities¹¹, its strategy and business plan is one of the key functions performed by the Board of Directors (Supervisory Board)¹². Pursuant to the Corporate Governance Code¹³ recommended by the Bank of Russia for the Companies whose securities are admitted to trading on organized markets (the "Corporate Governance Code"), the Board of Directors should be in charge of the strategic management of the Company, and ensure that the Company's executive bodies act in compliance with the approved strategy, business plan and the Company's core activities. The Board of Directors establishes the main long-term targets of the Company, evaluates and approves its key performance indicators and principal business objectives, as well as evaluates and approves its strategy and business plans in respect of its main areas of activities, and determines core principles of and approaches to establishing the Company's system of risk management, internal control and internal audit¹⁴.

The integration of accounting for ESG factors and sustainable development issues into the Company's strategy and its corporate governance system, including its risk management and internal control systems, plays an important part in long-term value creation. Given the key role of the Board of Directors in establishing the Company's strategy and its corporate governance system and practice, the Board of Directors should give special attention to accounting for ESG factors and sustainable development issues. To ensure proper consideration of these matters it is necessary to engage competent professionals with expertise in sustainable development as board members, and to provide board members with relevant information about ESG-related risks and opportunities, and sustainable development issues. It is also essential to build effective communication with internal and external experts in sustainable development as well as with all the Company's stakeholders.

These Recommendations for the Boards of Directors (Supervisory Boards) of public joint stock companies on the accounting for factors related to the environment, social development and corporate governance (ESG factors), and sustainable development issues (the "Recommendations") have been developed to supplement the provisions of the Corporate Governance Code regarding the role and key functions of the Company's Board of Directors. Compliance with the corporate governance principles set

¹⁰ Understanding Value Creation. IFAC. June 25, 2020. <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation/>.

¹¹ Article 65, Part 1, Section 1 of Federal Law No. 208-FZ, dated 26 December 1995, "On Joint-Stock Companies".

¹² Hereinafter referred to as the "Board of Directors".

¹³ See Bank of Russia Letter No. 06-52/2463, dated 10 April 2014, "On the Corporate Governance Code".

¹⁴ Principles 2.1, 2.1.2, 2.1.3 of the Corporate Governance Code.

out in the Corporate Governance Code and active implementation of the recommendations contained therein will facilitate a more effective application of these Recommendations.

The Recommendations offer basic approaches to accounting for ESG factors and related risks and opportunities as well as sustainable development issues with a view to creating long-term value, which may be applied to various economic sectors depending on the scale and nature of the Company's activities, its corporate governance practices and business processes, and the pace and significance of the latest changes related to sustainable development in respective sectors.

Thus, for instance, financial institutions' boards of directors should implement these Recommendations taking into consideration the area of their Companies' respective activities and specific regulations applicable to these institutions.

The Recommendations have been primarily developed to be used by public joint-stock companies as guidelines but can also be implemented by other organizations looking to enhance the efficiency of the policy-making and supervisory functions performed by the Board of Directors, as well as to ensure long-term sustainable development of the organization.

Glossary

The Recommendations use the following terms and definitions:

ESG factors: environmental factors (including those related to ecology and climate change), social factors and corporate governance factors.

Stakeholders: government and local government bodies, public law entities (e.g. states, federated regions/provinces, municipalities, etc.), legal entities and individuals that may have a stake in the results of the Company's operations and the value the Company creates, and/or can have significant effect on the Company's operations, products/services or decisions, or the actions of which can have effect on the Company's capability to create value, successfully implement its strategies and accomplish its objectives, as well as individuals and legal entities affected by the Company's operations.

Non-financial information: information and indicators reflecting the Company's objectives, strategy, corporate governance policies, risk management system and communications with stakeholders, in the context of the Company's planned contributions to achieving the SDGs, goals set out by the Paris Agreement, national strategic goals with regard to environmental protection, social development and economic growth, results of the Company's operations in terms of its impact on the environment, social development and economy, and in the context of adapting the Company's operations to account for environmental factors (including those related to ecology and climate change), social factors and corporate governance factors, as well as risks and opportunities related to these factors. The terms "sustainable development information" and "sustainable development reporting" are supplanting the terms "non-financial information" and "non-financial reporting", as the factors constituting this information have an impact on the Company's financial indicators as well.

Sustainable development¹⁵: development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development provides a three-dimensional model that simultaneously enables the economic, social and environmental aspects of global development.

Climate risks: risks related to climate change as well as to policies that are aimed at preventing the humanity's negative impact on climate and are implemented by the governments and regulators of the parties to the Paris Agreement that can have a negative effect on the Company's operations. Climate risks include physical climate risks and transition climate risks.

Transition climate risks: risks related to the transition to a low-carbon economy, in particular to policies implemented by the governments and regulators of the parties to the Paris Agreement in order to prevent climate change. Transition climate risks are subdivided into political, legal, technological, market and reputational risks.

Responsible investment: a conceptual approach to investing, under which investment activities as well as assessment and monitoring of investments involve accounting for ESG factors, the risks and opportunities that such factors create for investments, as well as the diligent exercise of the investor's rights and communication with the companies that are invested in. Moreover, for institutional investors responsible investment corresponds to their fiduciary duties to act reasonably and in good faith in the interests of their clients and beneficiaries, contributing to better reliability and profitability of investments for these persons¹⁶.

Energy transition¹⁷: the technological transition of the energy sector from hydrocarbon-based and other fuel-based energy generation systems to zero-carbon and low-carbon energy resources.

¹⁵ Report "Our Common Future" compiled in 1987 by the UN World Commission on Environment and Development. https://digitallibrary.un.org/record/139811/files/A_42_427-EN.pdf/.

¹⁶ See also Bank of Russia Information Letter No. IN-06-28/111, dated 15 July 2020, "On recommendations for the implementation of the principles of responsible investment" and Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, "On recommendations for public joint-stock companies on the disclosure of non-financial information pertaining to their activities".

¹⁷ Also referred to as "global energy transition" (as per Russian Federation Government Order No. 3052-r, dated 29 October 2021, "On Approving the Low-Carbon Social and Economic Development Strategy of the Russian Federation until 2050"), "decarbonisation" or "climate transition".

1. ESG factors and related risks and opportunities: general provisions

The term “Environmental, Social and Governance Factors” or “ESG factors” is widely used to describe factors related to the environment (including those related to ecology and climate change), society (social factors) and corporate governance. In 2005, the United Nations Environment Programme Finance Initiative (UNEP FI) published the report “A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment”¹⁸ that was the first document to underscore the materiality of these factors for conducting investment analysis of securities. According to the report, accounting for ESG factors when choosing securities issuers enables investors to select Companies that are more sustainable, well-functioning in terms of risk management and profitable in the long term. This approach provides a basis for developing a communication strategy for the Companies receiving investment aimed at improving financial performance of these Companies by mitigating ESG-related risks and pursuing ESG-related opportunities.

The way the Company manages its risks and takes advantages of ESG-related opportunities can significantly influence the Company’s financial and business performance, its development dynamics, long-term value creation, and, therefore, investment appeal. Recent studies indicate that the Company’s accounting for ESG factors and sustainable development issues in its operations over short, medium, and long term contributes to its financial indicators¹⁹ and, as a result, its investment appeal. Nowadays, many institutional investors follow a responsible investment approach. The Board of Directors is recommended to take into account that this trend can have considerable impact on the Company’s fundraising activities.

In addition, the Company’s development prospects are becoming increasingly influenced not only by the attitude of shareholders and investors towards the Company, but also that of other stakeholders: consumers of the Company’s goods and services, local communities, labour collectives, government and local government bodies, and public law entities. These stakeholders evaluate the impact of the Company’s activities on the environment, social development and economy, as well as to what extent the Company’s activities contribute to achieving the SDGs and meet the stakeholders’ expectations in this regard. The influence made by various categories of stakeholders depends on the economic sector the Company operates in, as well as on the nature and scale of the Company’s activities. The impact of these stakeholders on the Company’s short-, medium-, and long-term value creation may be significant as this may affect the Company’s competitiveness and its economic and financial performance.

Understanding the importance of various stakeholder groups and their needs with regard to obtaining information about the Company has helped shape in the international practice a new approach to information disclosures, the so-called “double materiality” concept²⁰, which presumes that there is value in disclosing information on how the Company accounts for ESG factors and related risks and opportunities and how they influence the Company’s financial performance, as well as information on the Company’s impact on the environment (including climate), social development and economy (i.e. information on sustainable development). Under this concept, ESG factors as well as related risks and opportunities are highly likely to influence financial indicators. Therefore, the relevant issues are the primary focus of shareholders and investors’ attention. However, the Company’s impact on the environment (including climate), social development and economy, as well as the Company’s activities aimed at achieving the SDGs are material for a much wider range of stakeholders who can also significantly influence the Company’s long-term value creation.

¹⁸ Source: <https://www.unepfi.org/publications/investment-publications/a-legal-framework-for-the-integration-of-environmental-social-and-governance-issues-into-institutional-investment/>.

¹⁹ According to 63% of 2,000 academic studies conducted since the 1970s, there is a positive correlation between accounting for ESG factors and a public company’s market value. See Gunnar Friede, Timo Busch & Alexander Bassen, ESG and Financial Performance: Aggregated Evidence from More than 2,000 Empirical Studies, *Journal of Sustainable Finance & Investment*, 2015; From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance, University of Oxford and Arabesque Partners, 2015.

²⁰ See Report on Sustainability-related Issuer Disclosures. Final Report. OICU-IOSCO. The Board of the International Organization of Securities Commissions. June 2021. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>; Communication from the European Commission. Guidelines on reporting climate-related information, 17 June 2019, C (2019) 4490 final. https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf.

The Board of Directors is recommended to account for “double materiality” not only when arranging disclosures but also when performing its functions with regard to the Company’s strategic management as well as to evaluate the importance of various stakeholder groups and the scale of their potential impact on the Company. However, it is also recommended to account for the dynamic nature of “double materiality”, which suggests that the materiality of certain issues related to ESG factors, the Company’s impact on the environment, and the influence that certain stakeholder groups have on the Company’s activities is prone to dramatic changes (so-called “dynamic materiality”²¹).

When considering both the “financial” and the ESG aspects of “double materiality”, the Board of Directors is recommended to focus on identifying and analysing the materiality of ESG risks as well as on ensuring that these risks are duly accounted for within the Company’s risk management system. It is important for the successful long-term operation of the Company that the Company’s risk management system envisages, inter alia, certain measures to mitigate the impact of physical climate risks²² and transition climate risks²³ on the Company’s activities, such as industrial restructuring measures based on action plans set out by national and international energy transition strategies and programmes.

It is recommended that **the environmental factors** taken into consideration should include, but should not be limited to, climate change and related weather (hurricanes, draughts, floods, etc.) and natural (permafrost melting, global sea level rise, etc.) phenomena, the use of natural resources and their depletion, in particular water scarcity, forest management and deforestation, biodiversity and biodiversity loss, greenhouse gas (GHG) and non-GHG emissions, waste generation and pollution, resource conservation, and other important environmental factors.

Considering the role of climate change and its global impact, the Board of Directors should dedicate special attention to managing climate risks, including physical climate risks resulting from the direct impact of adverse weather conditions and natural disasters, and transition climate risks that are, in turn, related to the transition towards a low-carbon economy, as well as to measures taken by governments and regulatory bodies of countries across the world with a view to preventing climate change. It is also recommended to take into account risks related to the Company’s third-party liability with regard to the consequences of events resulting from climate change, in case such risks are considered relevant for the Company.

It is recommended that **the social factors** taken into consideration should include, but should not be limited to, working conditions, occupational health and safety measures, gender, age and ethnic diversity, employment of people with disabilities, human capital management, remuneration issues, social programmes for employees, and relations with trade unions. These factors include, inter alia, protecting the rights of local communities that follow traditional lifestyles when the Company is implementing regional projects; the Company’s interaction with consumers, contractors, suppliers, and business partners, including in terms of ensuring accessibility and safety of goods, works and services; the Company’s impact on vulnerable consumer groups; and timely payments to suppliers and contractors. The Board of Directors is recommended to take into account the fact that protection of labour rights, including occupational safety issues and issues related to human rights protection, should be considered within both the Company itself and the Company’s supply chain. Depending on the nature and the particularities of the Company’s operations, the Company’s interaction with local communities and its regional expansion may be relevant as well.

²¹ Dynamic Materiality: Measuring what Matters. TruValue Labs, January 2020; Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. Summary of Alignment Discussions among Leading Sustainability and Integrated Reporting Organisations CDP, CDSB, GRI, IIRC and SASB Facilitated by the Impact Management Project, World Economic Forum and Deloitte. September 2020. <https://29kjwb3arnds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>; Financing for Sustainable Development Report 2021, Inter-agency Task Force on Financing for Development of United Nations, p. 71.

²² Physical climate risks are risks related to natural phenomena emerging due to climate change. Physical climate risks are subdivided into acute risks (related to unexpected events) and chronic risks (related to long-term change of climate characteristics and conditions).

²³ Transition climate risks are risks related to the transition to a low-carbon economy, in particular to policies implemented by the governments and regulators of the parties to the Paris Agreement in order to prevent climate change. Transition climate risks are subdivided into political, legal, technological, market and reputational risks.

It is recommended that **the governance factors** taken into consideration should include, but should not be limited to, the Company's capital structure, the Company's implementation of the Corporate Governance Code recommendations, efficiency of the mechanisms used for monitoring the Company's compliance with applicable legislation, mechanisms and measures aimed at combating fraud, corruption, money laundering, terrorist financing and financing the proliferation of weapons of mass destruction. The list of such factors also includes data on the structure and composition of the Company's governing bodies, as well as their business processes, ensuring a balanced remuneration system for the Company's governing bodies and key executives, information disclosure procedures, and systems of risk management, internal control and internal audit. In this context, it is recommended to give due consideration in corporate governance practices to issues related to the environment and social development, including protection of the Company's employees' labour rights, as well as protection of the stakeholders' rights and interests.

Due attention to ESG factors and sustainable development issues makes it possible not only to identify in a timely manner the risks of negative events materialising and properly manage such risks, but also to identify new opportunities that the Company can pursue when planning and conducting its operations. Accounting for ESG factors and sustainable development issues helps the Company establish a competitive edge and reach new development levels. The Company's climate-related opportunities that have a direct impact on its financial performance may include the following:

- (a) developing competitive advantages with regard to resource-saving technologies;
- (b) reducing costs by shifting to low-carbon energy sources;
- (c) producing goods and providing services in order to meet customer demand for goods and services offered by companies conducting responsible and environmentally friendly activities;
- (d) entering new geographic markets and using new types of assets (equipment or technologies) that contribute to the achievement of the SDGs, as well as attracting capital through sustainable finance instruments²⁴;
- (e) enhancing resilience of the Company's activities to the possible negative impact of climate-related factors²⁵.

Besides, effective human capital management, improved working conditions, as well as health and safety measures help establish a competitive edge for the Company in terms of attracting and retaining qualified personnel, and contribute to building a reputation of an environmentally and socially responsible employer with high business ethics standards.

The Board of Directors is recommended to consider taking relevant opportunities when formulating the Company's strategy, as well as the approaches to transforming the Company's business model and to managing its tangible and intangible assets. Positive attitude to the Company's activities in terms of their contribution to the SDGs among investors, analysts, rating agencies, the general public, consumers of the Company's goods and services, and other stakeholders also strengthens the Company's competitive position, enhances its access to capital, and improves the perception of the Company's brand.

When selecting business partners, the Company's counterparties (or potential counterparties), cost and quality of goods and services being equal, may give attention to the Company's accounting for ESG factors, related risks and opportunities for the Company's operations, the Company's activities in the field of sustainable development, and the contribution of the Company's activities to achieving the SDGs.

In order to create long-term value, the Board of Directors should take a proactive stance with regard to accounting for ESG factors and sustainable development issues (including in terms of pursuing opportunities related to energy transition, duly considering social factors and building an effective corporate governance system).

However, the Board of Directors may encounter insufficient understanding among shareholders, members of the Company's executive bodies and key executives with respect to the benefits and

²⁴ For the purposes of the Recommendations, "green financing", "sustainable development financing" and "sustainable finance instruments" mean investments and other financial instruments aimed at the implementation of projects and activities contributing to the achievement of the goals set out by the Paris Agreement and the United Nations Sustainable Development Goals, including climate change mitigation and adaptation, mitigation of the Company's impact on the environment, restoration of natural habitats, and construction and modernisation of social infrastructure.

²⁵ Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.
<https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf/>.

advantages of incurring possible additional costs upon introduction of corporate governance practices related to accounting for ESG factors and sustainable development issues. In this case, the Board of Directors is recommended to facilitate raising awareness among the above-mentioned groups regarding the importance of ESG factors and sustainable development issues, as well as increasing the level of relevant competencies and skills among the Company's executive bodies and key employees. In particular, the Board of Directors should launch awareness-raising programmes to explain that ignoring risk management practices and practices of pursuing ESG-related opportunities jeopardizes the Company's successful long-term development, and poses reputational and financial risks to the Company, members of its governing bodies and employees.

2. Determining the Company's policy on accounting for ESG factors and sustainable development issues

2.1. Determining and prioritizing the objectives related to accounting for ESG factors and sustainable development issues to include them in the Company's strategy

The Board of Directors should determine the significance of ESG factors and sustainable development issues for the Company and prioritize specific goals and objectives related to accounting for ESG factors and creating the Company's long-term value. Based on this assessment, the Board of Directors should identify relevant goals and objectives to be integrated into the Company's strategy (or a sustainable development strategy, if the Company has identified the need for a separate document outlining its sustainable development strategy) in the context of and in connection with the Company's planned contributions to achieving the SDGs, goals set out by the Paris Agreement, and national goals set out in governmental strategic planning documents. When determining the Company's priority goals and objectives related to ESG factors and sustainable development issues, the Board of Directors should set clear criteria for assessing the Company's progress towards achieving the selected goals and objectives, as well as identify key non-financial performance indicators to be used to assess the progress towards achieving those objectives, and determine short-, medium- and long-term targets for such indicators. The Company's objectives, key non-financial performance indicators²⁶, and their targets should be determined in such a way that they contribute to creating long-term value, as well as reflect the demands and needs of investors and other stakeholders with respect to ESG factors and sustainable development issues.

2.2. Assessing the Company's practices related to accounting for ESG factors and sustainable development issues

With a view to determining the Company's current position in relation to the target model, the Board of Directors should ensure that the Company carries out a comprehensive analysis of its corporate governance system, management procedures and practices, and business processes in terms of whether they properly account for ESG factors and sustainable development issues. When conducting such an assessment, it is recommended to initiate and hold consultations not only with shareholders, but with a wider range of stakeholders (clients, consumers, suppliers, counterparties, employees, trade unions, government and local authorities, scientific and expert community, public organizations, mass media and local communities, etc.), so as to get the whole picture of the situation. It is also recommended to consider whether an independent external assessment of the strategy (sustainable development strategy) and the Company's corporate governance policies and practices is needed to verify their compliance with cutting-edge approaches in the field of sustainable development, as well as to predict potential corporate, environmental and social risks.

²⁶ For more information on key non-financial performance indicators, see Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, "On recommendations for public joint-stock companies on the disclosure of non-financial information pertaining to their activities".

2.3. Organizational and methodological framework of the Company's policy on accounting for ESG factors and sustainable development issues

The Board of Directors should ensure that the Company carries out an analysis of its internal documents, engaging external consultants as required, to assess the compliance of its internal documentation with the goals and objectives related to accounting for ESG factors and sustainable development issues, as well as to verify whether the key non-financial performance indicators established by the Board of Directors are properly considered therein. Following the analysis, the Board of Directors is recommended, if necessary, to ensure that the Company develops or updates relevant internal documents, in particular the code of business conduct (code of ethics), information security policy, occupational safety and health policy, anti-corruption policy, policy on remunerating members of the executive bodies and other key executives, risk management and internal control policy, including with regard to suppliers (contractors) within the supply chain, policy on interacting with local communities, human rights policy, etc.

To ensure effective oversight of the Company's efforts to implement the goals and objectives related to accounting for ESG factors and sustainable development issues, as well as to fulfil the Company's strategy (sustainable development strategy) and monitor the application of the relevant internal policies, regulations and principles, the Board of Directors is recommended to determine the format, frequency and procedures for the Company's executive bodies to provide the Board of Directors with information on accounting for ESG factors and sustainable development issues in the Company's activities.

The Board of Directors should take the necessary decisions and organizational measures, while also engaging the Company's Corporate Secretary, so that the information referenced above is regularly reviewed by the Board of Directors. In addition, it is recommended to take the necessary measures ensuring that the Board of Directors is promptly informed by the executive bodies about significant events leading to the occurrence of ESG-related risks and opportunities, as well as the measures facilitating timely provision of complete, sufficient and reliable information to the Board of Directors on relevant aspects of the Company's activities.

The Board of Directors is recommended to ensure consideration of the need to form a separate business unit responsible for coordinating efforts related to accounting for ESG factors and sustainable development issues. The activities falling within the unit's purview may include, inter alia:

- Analysing the Company's current practices related to accounting for ESG factors and sustainable development issues and formulating proposals to improve such practices;
- Developing recommendations for the Company's management bodies on accounting for ESG factors and sustainable development issues;
- Ensuring interaction with stakeholders on sustainable development issues;
- Preparing and disclosing non-financial information;
- Arranging selection of an independent organization for external assurance of the sustainable development information (non-financial information) disclosed by the Company;
- Initiating public discussion of the sustainable development information (non-financial information) disclosed by the Company.

3. Recommendations for the Board of Directors on accounting for ESG factors and sustainable development issues when performing its key functions

3.1. Strategic management of the Company

Giving a long-term focus to the Company's activities is the cornerstone of creating long-term value. International organizations, regulatory bodies and the public have demonstrated a particular interest in this topic since companies in many countries, including member states of the European Union²⁷, tend to prioritize short-termism²⁸, which may have a negative impact on long-term value creation. Such trends may emerge following respective demands of shareholders with a short-term investment horizon or due to remuneration schemes for members of the companies' executive bodies that serve as an incentive to achieve short-term results. As a strategic management body²⁹, the Board of Directors should adopt a consistent approach aimed at creating long-term value and strike the right balance between short-term and long-term goals.

A long-term focus of the Company's activities implies, in turn, establishing clear mechanisms for strategic goal-setting and planning (such as analysing the Company's possible development options in the long term based on scenario analysis, integrating the assessment of risks and opportunities into strategic planning, etc.) supported by effective mechanisms for introducing the Company's strategy. As pointed out in Section 2.1 of the Recommendations, to create long-term value, the Board of Directors should integrate ESG factors and sustainable development issues into the Company's strategy and/or develop a sustainable development strategy, as well as determine the Company's key non-financial performance indicators and clear criteria for assessing the Company's progress towards achieving the goals related to accounting for ESG factors and sustainable development issues.

Regular analysis of the trends in the Company's performance indicators (e.g. on a quarterly basis) will enable the Board of Directors to timely assess the alignment of the Company's performance with the intended key performance indicators, the effectiveness of practical steps aimed at implementing the Company's strategy (sustainable development strategy), as well as to assess how effectively the Company is implementing its strategy (sustainable development strategy) in terms of accounting for ESG factors and sustainable development issues.

With a view to implementing the Company's strategy (sustainable development strategy) in an effective manner, the Board of Directors is recommended to introduce remuneration schemes for the members of executive bodies that are based, inter alia, on the criteria for assessing the Company's progress towards achieving the goals and objectives related to accounting for ESG factors and sustainable development issues. To carry out such an assessment, the Board of Directors determines the set of the key performance indicators (including the Company's key non-financial performance indicators) and their weighting coefficients, and establishes respective targets for a specific reporting period.

3.2. Accounting for ESG factors in the risk management system³⁰

Pursuant to the Corporate Governance Code, the Board of Directors should determine the principles of and approaches to establishing the Company's risk management and internal control system³¹. In addition, the Board of Directors is recommended to assess and regularly reassess risks, including environmental (ecological and climate) and social risks, and determine the levels of such risks acceptable to the Company (risk appetite)³².

When establishing the risk management system, the Board of Directors is recommended to make sure that the Company's risk management practices and internal control procedures are already applied or can

²⁷ Final Report "Study on Directors' Duties and Sustainable Corporate Governance". <https://op.europa.eu/en/publication-detail/-/publication/e47928a2-d20b-11ea-adf7-01aa75ed71a1/language-en>.

²⁸ The term "short-termism" means excessive focus on short-term goals in the Company's activities.

²⁹ Principle 2.1.2. of the Corporate Governance Code.

³⁰ For more information on creating a risk management system, see also Bank of Russia Information Letter No. IN-06-28/143, dated 1 October 2020, "On recommendations for public joint-stock companies with regard to organizing risk management, internal controls, internal auditing, and the work of auditing committees under boards of directors (supervisory boards)".

³¹ Principle 2.1.3. of the Corporate Governance Code.

³² Section 69 of the Corporate Governance Code.

be applied, inter alia, to analysing and assessing ESG factors and ESG-related risks and opportunities. The Board of Directors should also assess the adequacy of such practices and their adaptability to the rapidly changing external environment in which the Company operates.

In order to get information on the current situation and the Company's practices with regard to managing ESG-related risks and opportunities, upon assessing the efficiency of the risk management system the Board of Directors should assess the compliance of the Company's activities, as well as the activities of the organizations controlled by the Company with ESG-related mandatory requirements. The scope of the assessment should also include an evaluation of the Company's compliance with its voluntary sustainable development commitments, along with an analysis of the stakeholders' perception of the Company and their demands and expectations, which may have a positive or a negative impact on creating long-term value.

The Board of Directors, in cooperation with the Company's executive bodies, owners of ESG-related risks (employees and business units), officials, executives responsible for risk management and internal controls, and the internal auditor, is recommended to revise (update) the principles of and approaches to establishing the risk management system, as well as the risk management methodology, while also paying due regard to the Company's most material ESG-related risks.

When forming a behavioural environment and a risk management culture (risk-oriented culture) that would reflect the Company's core values, capture the importance of understanding risks and promote desirable behaviour among the Company's employees with respect to risk management, the Board of Directors is recommended to demonstrate commitment to the Company's priority goals and objectives related to accounting for ESG factors and sustainable development issues, as well as to carefully consider such factors and issues when taking managerial decisions and performing strategic control functions.

Furthermore, when forming a risk-oriented culture, the Board of Directors should ensure that all employees of the Company perceive ESG factors not only as potential causes of risks, which may negatively affect the Company's activities, but also as a source of new opportunities for the Company, given that timely identification and use of such opportunities is one of the main goals of risk management and long-term value creation.

Finally, the Board of Directors should regularly determine and review the significance of potential ESG-related risks that may affect the Company's activities³³.

3.3. Managing the disclosure of information pertaining to sustainable development (non-financial information)

In accordance with Principle 2.1.6. of the Corporate Governance Code, the Board of Directors plays a crucial role in ensuring the Company's information transparency, as well as timely and full disclosure of information. At the same time, Principle 6.2.2. of the Corporate Governance Code states that Companies should avoid using a formalistic approach to disclosure and disclose material information about their activities even if such disclosure is not mandated by law.

In particular, pursuant to Section 288 of the Corporate Governance Code, Companies should disclose information related to their social and environmental responsibility. Recommendations for public joint-stock companies on disclosing non-financial information are contained in Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, "On recommendations for public joint-stock companies on the disclosure of non-financial information pertaining to their activities" (the "Bank of Russia Letter on Disclosing Non-Financial Information")³⁴, which stipulates that the approval of the Company's non-financial reporting should fall under the purview of the Board of Directors.

With more investors accounting for ESG factors in their investment activities and more requests for information on sustainable development coming from investors and other stakeholders, it becomes crucial for Companies to properly disclose non-financial information. Neglecting to disclose such information may lead to a negative impact on the Company's image among stakeholders, its business reputation, as well as its investment appeal and competitiveness.

³³ OECD Business and Finance Outlook 2020.

³⁴ Source: https://www.cbr.ru/StaticHtml/File/117620/20210712_in-06-28_49.pdf.

In view of this, the Board of Directors should employ the approaches suggested in the Bank of Russia Letter on Disclosing Non-Financial Information when arranging and monitoring information disclosure. Furthermore, special attention should be paid to accounting for ESG factors and sustainable development issues in the Company's strategy and corporate governance system, including to using research-based scenarios of climate change, determining material issues, taking into consideration "double materiality" and "dynamic materiality"³⁵, and selecting key non-financial performance indicators and their targets. In addition, the Board of Directors should be ready to provide clarifications as to how ESG factors and sustainable development issues have affected the Company's financial performance.

4. Approaches to organizing the Board of Directors' efforts to account for ESG factors and sustainable development issues

The Chair of the Board of Directors plays a key role in organizing its efforts. When planning the work of the Board of Directors, setting meeting agendas, and discussing issues within the Board of Directors' purview, the Chair should make sure that sufficient attention is dedicated to discussing issues pertaining to ESG factors and sustainable development. These issues should also be covered when discussing the Company's strategy (sustainable development strategy) and monitoring its implementation, when discussing the Company's business plans and budget, as well as monitoring the Company's activities against its key non-financial and financial performance indicators, including when analysing reports compiled by the Company's executive bodies.

In the course of conducting a self-assessment³⁶ or commissioning a third-party assessment of its performance, the Board of Directors should analyse how familiar its members are with accounting for ESG factors and sustainable development issues, and whether they possess the required knowledge and expertise. If necessary, members of the Board of Directors should be provided with an opportunity to undergo additional training and participate in thematic conferences corresponding to their professional level. ESG factors and sustainable development issues pertaining to the Company's activities are strategic matters and thus should be properly analysed and considered by all members of the Board of Directors. The corresponding needs of the Board of Directors should also be taken into account with respect to succession planning.

Preliminary analysis of matters related to accounting for ESG factors and sustainable development issues can be entrusted to a committee (committees) under the Board of Directors. The Board of Directors should decide whether it is necessary to create a dedicated committee in charge of accounting for ESG factors and sustainable development issues, or expand the list of tasks of its existing committees. In particular, if the Company's Board of Directors has established a Strategy Committee, it can be tasked with conducting a preliminary analysis of matters related to ESG factors and sustainable development issues by making corresponding changes to the committee's objectives and functions in the respective regulation.

Furthermore, the Board of Directors should assess whether its committees' functions align with the Company's goals and objectives related to ESG factors and sustainable development issues. In particular, the Board of Directors should make sure that the Audit Committee (Corporate Governance Committee, if applicable) has a clear vision of the approaches to compiling and disclosing non-financial information³⁷ in case the Board of Directors has entrusted this committee with monitoring the compliance with the Company's information policy³⁸, and that the Audit Committee (Risk Committee, if applicable) has a clear understanding of its objectives regarding risk management and ESG-related opportunities, and pays sufficient attention to these matters.

The Remuneration Committee (Nomination/Appointments/Personnel Committee) should develop suggestions as to the Company's key performance indicators (including non-financial indicators) that account for ESG factors and sustainable development issues, as well as the weighting coefficients and

³⁵ See Bank of Russia Letter on Disclosing Non-Financial Information.

³⁶ See also Bank of Russia Information Letter No. IN-06-28/41, dated 26 April 2019, "On recommendations for the boards of directors (supervisory boards) of public joint-stock companies with regard to organizing and conducting self-assessment performance reviews.

³⁷ See also Bank of Russia Letter on Disclosing Non-Financial Information.

³⁸ Section 82 of the Corporate Governance Code.

targets for such indicators that can be included into the remuneration system for members of the Company's executive bodies and key executives. The aforementioned indicators should be designed taking into account the Company's strategy (sustainable development strategy) and the current and target values of its performance indicators. When conducting a regular assessment of the remuneration system for the Company's executive bodies and key executives to verify whether it complies with the Company's strategy (sustainable development strategy), the Remuneration Committee should make sure that the system incorporates key performance indicators that create financial incentives for reaching the Company's goals and objectives related to accounting for ESG factors and sustainable development issues.

The Board of Directors should also regularly discuss the Company's activities in the field of sustainable development with the Company's executive bodies and key executives in order to make sure that they have a clear understanding of the goals and objectives related to accounting for ESG factors and sustainable development issues set by the Board of Directors. In addition, the Chair should ascertain that the information and suggestions with respect to accounting for ESG factors and sustainable development issues submitted by executive bodies and key executives have been properly considered by the Board of Directors.

The Board of Directors should use the Recommendations to develop self-assessment criteria for its activities related to accounting for ESG factors and sustainable development issues. Furthermore, in order to determine specific steps towards implementing the Recommendations, the Board of Directors should conduct a self-assessment of its work in the field of accounting for ESG factors and sustainable development issues. The Annex to the Recommendations contains a list of suggested questions (criteria) that could be used for conducting such an assessment. The Board of Directors should consider expanding this list depending on the scale and nature of the Company's activities, as well as the maturity of its corporate governance system.

to the Recommendations for the Boards of Directors (Supervisory Boards) of Public Joint-Stock Companies on the Accounting for Factors Related to the Environment, Social Development and Corporate Governance (ESG Factors), and Sustainable Development Issues

List of suggested questions (criteria) for conducting a self-assessment performance review of the Board of Directors' efforts to account for ESG factors and sustainable development issues

In order to determine the approach to implementing the Recommendations, the Board of Directors should consider the following questions (criteria), the answers to which would allow assessing the Board of Directors' efforts to account for ESG factors and sustainable development issues, as well as to evaluate the level of their compliance with the Recommendations. To organize its respective answers, the Board of Directors can use the tentative form below. In addition, it is recommended to fill in the comments section for future reference.

No.	Question/criterion	Assessment ³⁹	Comments and suggestions with respect to improving the existing practice
1	Question/criterion		
...etc.			

Suggested questions (criteria):

1. As part of the activities related to strategic planning, monitoring the implementation of the Company's strategy, and managing the Company's remuneration system for executive bodies and key executives, the Board of Directors has:

a) conducted the necessary analysis and determined the key areas, goals and objectives of the Company's activities that pertain to accounting for ESG factors and sustainable development issues;

b) considered conducting a comprehensive analysis of the Company's corporate governance system, governance procedures and practices, and business processes in order to determine the Company's position in relation to the target development model in terms of accounting for ESG factors and sustainable development issues, and, if deemed necessary, commissioned such an analysis (engaging additional third-party assessment as required);

c) identified the corresponding key non-financial performance indicators and their targets for the short, medium and long term, and elaborated approaches to assessing whether respective goals have been achieved;

d) used such indicators to develop a remuneration system for the Company's executive bodies and key executives.

2. The Board of Directors dedicates due attention to assessing the materiality of matters that pertain to accounting for ESG factors and sustainable development issues in the Company's activities.

3. The Board of Directors conducts materiality assessments of different stakeholders and their potential impact on the Company's ability to create long-term value and, if necessary, makes respective changes to the Company's strategy (sustainable development strategy), as well as to its communication and information policies, in particular with regard to disclosing non-financial information.

4. The Board of Directors regularly discusses the matters related to accounting for ESG factors and sustainable development issues in the Company's activities and has a clear understanding of the Company's actions in this regard.

5. The Board of Directors has commissioned a dedicated analysis (with third-party engagement, if necessary) in order to verify whether the Company's internal documents comply with the goals and objectives related to accounting for ESG factors and sustainable development issues, and whether they include the established key non-financial performance indicators.

³⁹ For more information on the approaches to conducting a self-assessment performance review, see Section 2.4 of Bank of Russia Information Letter No. IN-06-28/41, dated 26 April 2019, "On recommendations for the boards of directors (supervisory boards) of public joint-stock companies with regard to organizing and conducting self-assessment performance reviews".

6. The Board of Directors has ensured that the risk management system properly accounts for risks and opportunities related to ESG factors and sustainable development issues.

7. The Board of Directors has established a risk appetite with respect to ESG-related risks (if necessary).

8. The Board of Directors has ensured that the Company's executive bodies and key executives have sufficient understanding of the Company's material risks stemming from ESG factors and sustainable development issues (including climate change risks) and that the corresponding risk management procedures are conducted in accordance with the principles and approaches established by the Company's Board of Directors.

9. The Board of Directors has determined the format, frequency and procedures for the Company's executive bodies to provide to the Board of Directors reports concerning the efforts to account for ESG factors and sustainable development issues.

10. The Board of Directors has taken the necessary measures for ESG factors and related risks and opportunities, as well as sustainable development issues to be properly accounted for in its activities, in particular:

a. The Board of Directors employs feedback mechanisms to maintain a continuous discussion of ESG factors and sustainable development issues with investors, employees and other stakeholders, carefully studies their requests with respect to accounting for ESG factors in the Company's activities and the Company's impact on the environment, social development and economy, and strives to properly meet such needs when discussing strategic matters and developing the Company's information policy;

b. The Board of Directors has envisaged opportunities for its members to receive additional training in the field of accounting for ESG factors, related risks and opportunities, as well as sustainable development issues by organizing relevant thematic workshops and/or by having its members participate in events corresponding to their professional level (conferences and round tables);

c. The Board of Directors has considered the need to task one of its existing committees with conducting a preliminary analysis of ESG factors and related risks and opportunities, as well as sustainable development issues (in addition to the committee's other objectives), or to create a dedicated committee charged with accounting for ESG factors and sustainable development issues, and has subsequently made a decision in this regard;

d. In cases where creating a dedicated committee was deemed unnecessary, the Board of Directors has determined the approaches to accounting for ESG factors and sustainable development issues through the activities of its other committees in accordance with their respective functions and has ensured that the corresponding changes will be made to the internal documents regulating the work of the Board of Directors' committees;

e. The Board of Directors regularly assesses whether the work of the Company's executive bodies and key executives related to accounting for ESG factors and sustainable development issues is well-organized, and, in particular, whether respective efforts of the Company's functional units are well-coordinated.

11. The Board of Directors has sufficient knowledge of the existing standards, recommendations and best practices pertaining to the disclosure of non-financial information by Companies, and is familiar with the concepts of "double materiality" and "dynamic materiality".

12. The Board of Directors has approved the Company's information policy that properly covers disclosing non-financial information.

13. The Board of Directors has determined the most suitable document (the Company's Annual Report, Securities Issuer Report or Non-Financial Report) for disclosing non-financial information.

14. The Board of Directors reviews and assesses the process of disclosing non-financial information in the Company's Annual Report, Securities Issuer Report or Non-Financial Report.

15. The Board of Directors reviews the key documents containing non-financial information to be disclosed and approves the Company's Non-Financial Report⁴⁰.

⁴⁰ See also Bank of Russia Letter on Disclosing Non-Financial Information.