

# KAZAKHSTAN STOCK EXCHANGE

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**Approved by**

a decision of Kazakhstan Stock Exchange's  
Management Board

(meeting minutes No. 118  
dated November 29, 2016)

**Effective**

as of December 1, 2016

## **NOTICE**

Mentioned below Methodology in English has been translated by employees of Kazakhstan Stock Exchange for information purposes only. In case of any incompliance of this translation with the Methodology original version in Russian, the latter prevails.

# **METHODOLOGY**

## **of preparing an Environmental, Social and Governance report**

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Almaty

2016

Nowadays, disclosure of corporate statements along with financial statements is of great importance for investors and shareholders. This allows them to form and adequate evaluation of the company's performance in the long run.

This Methodology of preparing an Environmental, Social and Governance report (hereinafter – the ESG report) was developed as part of the move of Kazakhstan Stock Exchange JSC (hereinafter – the Exchange) to join the UN initiative called "Sustainable Stock Exchanges", promoting the cooperation between exchanges, investors and regulators for purposes of facilitating the long-term sustainable investing, increasing the level of information disclosure and is designed for listed companies, irrespective of their size, industry or location.

This Methodology is a recommendation on preparing an ESG report for listed companies, as well as members of Exchange, irrespective of their membership category, and it includes a description of the subject and principles of preparation of an ESG report, approaches to information disclosure.

Preparation of ESG reports and provision thereof to the Exchange is not part of requirements on information disclosure specified by the Exchange for its members, listed companies and securities admittance initiators (hereinafter the members of the Exchange, listed companies and securities admittance initiators are named organizations).

An organization can provide an ESG report to the Exchange at any moment by way of the electronic document flow system of the Exchange with members of Exchange and listed companies (hereinafter – the is2in system).

After the provision of an ESG report to the Exchange, such report becomes public information. The Exchange releases on its website ESG reports received from organizations, according to the procedure specified in the Exchange's internal documents.

An ESG report must not contain confidential or insider information, nor information constituting commercial secret, nor other information not being subject to public dissemination.

### **General information on ESG report**

An ESG report should contain a description of the general vision and strategy of the organization for the short-term, medium-term and long-term periods, especially with regard to the management of substantial ecologic and social impact, which the organization has or which could be related to its operations due to its relations with third parties (suppliers, public, various organizations).

The following information should be included in the ESG report:

- key issues for the short-term and medium-term periods, related to ecologic and social aspects of sustainable development, including compliance with international standards;
- macroeconomic or political trends affecting the organization and its priorities in the area of sustainable development;
- most important events, performance of the organization in the period under review in relation to objectives set.

The organization should stick to the following approaches when defining the subject of the ESG report:

- formulation of aspects important for the organization and assessment of their impact on its activities, products, services and relations with interested parties;
- setting the borders of such impact on the external and internal environment of the organization;
- setting priorities with regard to detected aspects depending upon their essence for purposes of defining subjects which must be included in the report, and the volume of related information;
- disclosure of data on approaches in the area of management, as well as indicators related to essential aspects of the organizations' operation.

When preparing an ESG report, organizations are recommended to use the following principles.

Cooperation with interested parties

The organization preparing an ESG report must determine parties which are interested in its operation, and clarify in such report the level of their interestedness (involvement). Interested parties can be represented by parties which contributed to the organization (employees, shareholders and suppliers) and third parties (vulnerable groups in the local population, civic society groups).

### Essentiality

An ESG report must encompass categories which have substantial impact on the economy of the region and the country as a whole, the environment and society, on assessments and decisions of interested parties.

### Completeness

Indicators and contents of the ESG report must be sufficient to reflect the organization's substantial impact on the economy, environment and society, and give to interested parties an opportunity to assess results of the organization's activities over the period under review. The completeness includes three main dimensions – the scope, borders and time limits. The concept of completeness can also be used with regard to methods of data collection.

### Comparability

Interested parties using an ESG report, must have the possibility to compare the information provided on economic, ecologic and social results of the organization's activities with results from the previous periods, its objectives, with performance of other organizations.

### Accuracy

Information provided in an ESG report, must be accurate and detailed enough so that interested parties could assess performance of the organization that prepared such report. Information can be expressed by qualitative descriptions and quantitative data.

### Timeliness

An ESG report is provided on a regular basis. The information must be provided timely, so that interested parties can take informed decisions. The timeliness of the issue applies to the accounting regularity, as well as to the period between the ESG report issue and real events described therein.

### Clarity

Information in an ESG report must be presented in a form clear and comprehensible to interested parties.

### Reliability

Information and processes used while preparing the ESG report, must be collected, documented, composed, analyzed and disclosed in such way that interested parties could check that report and assess the extent of reliability of its contents.

In addition to information subject to disclosure in accordance with this Methodology, the Exchange recommends to supplement the ESG report with information which, in the organization's opinion, is substantial and can provide more ideas about its activities. To ease the perception of information an ESG Report should include tables, charts, diagrams, calculations used and methodologies on defining quantitative indicators.

Information subject to disclosure in accordance with this Methodology can already be available in other reports, prepared by the organization, e.g. in its annual report or other statements prepared mandatorily or voluntarily. In that case an organization can upon wish not provide already disclosed information in its ESG Report, but include a link to the document containing the respective information.

In case information subject to disclosure is not related to the organization's activities and/or for any reason its disclosure is considered impossible, it is sufficient to report it.

An ESG report must include ecologic and social sections, as well as a section on corporate governance.

## Ecologic Section

### 1. Materials.

Information is provided, whether the organization carries out economic and other operations potentially harmful to the environment, has the special right to use natural resources. Also information is provided on the total weight or volume of materials in respective (commonly used) measurement units, spent by the organization in the reporting year in the production and packaging of main produce (products, services rendered) from nonrenewable and renewable materials, the share of recyclable materials.

### 2. Products and services.

Quantitative data are disclosed on the extent of decreasing of the organization's produce (products and services) impact on the environment in the reporting year and percentage share of the produce (products) and its packaging materials, accepted for recycling by each goods category. The organization must announce, whether its produce (products) has eco-labelling.

### 3. Waste.

Information is provided on the total weight in respective (commonly used) measurement units of hazardous and non-hazardous wastes, available in the organization, with indication of their classification, as well as methods and ways of their removal (deactivation, recycling, disposal) in the reporting year. The organization must disclose information on the total weight in respective (commonly used) measurement units of transported, imported, exported, recycled hazardous waste of the organization, and the percentage of their internal and external transportation.

### 4. Water utilization.

The total volume of water is indicated in respective (commonly used) measurement units, which was utilized by the organization for main activities in the reporting year, by source types, as: surface waters, underground waters, rain waters, collected and stored waters, sewerage waters of another organization, communal and other water supply systems. The organization must describe, whether this utilization has substantial impact on the water source, the biodiversity around the water source, indicate whether this water source was classified as part of a public wildlife reserve, its importance and value to the local population. The organization must disclose the total volume of water in respective (commonly used) measurement units, which is recycled by the organization, and its share in the total consumption by the organization.

### 5. Energy consumption.

Information is disclosed on the total consumption of energy by the organization in the reporting year, with breakdown by types of used energy from renewable and non-renewable sources in respective (commonly used) measurement units, as well as the total reduction in the energy consumption in the reporting year, which the organization could manage as a result of energy-saving and energy efficiency improvement initiatives.

### 6. Pollution discharge.

The total quantity and total volume in respective (commonly used) measurement units of registered pollution discharges is indicated, which took place in the reporting year due to actions/failure to act on the part of the organization. The organization must provide information on the discharge place and its status, characteristics of the substance discharged (oil, fuel, waste, chemical reagents, other substances), on the impact of such discharge on the environment, methods and ways of liquidation of its consequences.

### 7. Water discharge.

The total volume of planned and extraordinary water discharges in respective (commonly used) measurement units is indicated in the reporting year, with indication of the water discharge place, water quality, including purification method(s). information is disclosed on the water objects and related environment affected by the organization's water discharges with indication of their geographical location, area, status and valuableness for the biodiversity.

8. Greenhouse emission.

The total volume of direct and indirect greenhouse discharges in respective (commonly used) measurement units made by the organization in the reporting year is indicated, their types and intensity. The organization must disclose information on measures taken by the organization to reduce discharges and the volume of reduction in in respective (commonly used) measurement units.

9. Environment.

Information is provided on the organization's total expenses on environment protection in the reporting year, with breakdown by expenses on waste utilization, emission purification, liquidation of ecologic damage, by expenses on prevention of negative impact on the environment. The organization must indicate whether it uses suppliers (potentially) affecting the environment, their number and percentage from the total quantity of suppliers, the nature of such negative impact. Measures on reduction of negative consequences of the organizations' operations and measures on improvement of its quality can be presented. The organization must announce, whether it carries out ecologic monitoring of objects and territories, where it operates, as well as whether it implemented international standards of environment protection management system.

10. Biodiversity.

The organization must provide an objective characteristic of the organization's impact on the biodiversity of the territories where it operates, during the production process, with indication of substantial direct, indirect and cumulative, positive and negative impacts on the environment. It must indicate the geographic location and status of territories, where the organization operates, the number of species of flora and fauna there, including those from the international and national Red Books, the level of their risk of extinction from the organization's' negative impact.

11. Compliance with requirements.

The organization provides information on its compliance with ecology law requirements, the total amount of penalties and number of cases of non-financial sanctions applied to the organization in the reporting year for violation of ecology laws, the number of claims submitted against the organization in the reporting year for affecting the environment, the nature of such violations, sanctions and claims, information on their settlement. The organization must indicate the cases of violation by the organization of levels of maximum permitted emissions, polluting agents discharges, standards of disposal of wastes of production and consumption, registered in the reporting year, their nature and main reasons. The organization must provide information on the most recent ecologic auditing and main conclusions which were made based on results of mandatory ecologic auditing.

### **Social section**

1. Employment.

The total quantity of the organization's employees is indicated as of the reporting date, with breakdown by age groups, gender and geographic region, including the percentage of employees hired in the reporting year. The organization must describe the employment turnover and its reasons. It must report whether the organization provides a social package to its employees, if yes – what it includes, whether this package applies to employees hired temporarily or partly. It indicates the total number of employees on leave and those who came back to employment from maternity leave in the reporting year, by gender. The organization must provide information on the minimum period for notifying an employee on substantial changes related to his work.

2. Heal and Safety in workplace.

The organization provides details of types of injuries the organization's employees suffered in the reporting year, the accident frequency rate, occupational illness rate, lost days ratio, workplace absence rate, rate of fatal work injuries in the organization, also in independent sub-contractors working at the organization's facilities, with breakdown by region and gender. The organization

must provide details of the system of rules used for registration of accidents at production site, and on generation of necessary reports. The organization must indicate, whether it carries out activities which are potentially related to high injury rate or high risk of catching certain illnesses. Whether official agreements with labor organizations the issues of health and safety.

3. Training and education.

The organization indicates the average number of hours per employee during the reporting year with breakdown by gender and employee category. It discloses information on the availability of employee qualification improvement programs, their types and character, as well as programs of assistance to employees who quit due to retirement or discontinuation. The organization indicates the percentage of employees with breakdown by gender and employee category, whose performance was officially evaluated during the year.

4. Diversity and equal opportunities

The organization indicates the share (in percentage) from the total number of employees related to various categories, like: gender; age groups: under 30 years of age, 30–50 years old, above 50 years old; minority groups; other signs of diversity. The organization must present data on the relation of the basis remuneration rate for women to that for men for each category of employees with breakdown by operation region. Data are provided on the total number of cases discrimination against employees during the reporting year, the status of those cases and measures taken.

5. Labour practices.

The organization indicates the total number of complaints submitted against the organization in the reporting year for violation of labour practices, and the status of such complaints. The organization must provide the total number of training hours and percentage of employees that during the reporting year underwent training in policies or procedures related to human rights aspects important to the organization's operations. The organization indicates units and own suppliers that have significant risk of using child labour or forced labour, young employees" carrying out dangerous labour.

6. Fighting corruption.

The organization discloses information on available internal policies and methods of fighting the corruption. It has to provide data on substantial corruption-related risks for organizations. The organization has to indicate the total number and percentage of units with regard to which corruption-related risks were evaluated, the total number of employees which were informed and took a course in policies and methods of fighting corruption. It also has to indicate the total number and character of confirmed cases of corruption, measures taken with regard to the organization and its employees during the reported year due to corruption-related violations.

7. Compliance with requirements.

The organization provides information on circumstances, the total amount of substantial penalties and number of non-financial sanctions applied to the organization for violating requirements of the legislation. The organization has to indicate the total number of cases during the reporting year, related to restraint of trade and antitrust violation, as well as main results of such investigations.

8. Liability for produce.

The organization indicates the total number of cases of the organization's incompliance with requirements of laws and voluntary codes with regard to impact of the produce (products, services rendered) on health and safety, with regard to information and labelling on features of the produce (products, services rendered), with regard to marketing communications, including advertising, promotion and sponsorship for the reporting year, broken down by cases leading to a penalty or sanction, to a warning. It has to report whether the organization sells goods banned on some markets, questionable for interested parties or are subject of public discussion, as well as indicate how the organization responds to questions or concerns regarding those goods.

9. Consumers' private life.

The organization has to indicate the total number of justified complaints received which relate to

violation of integrity of private life of consumers, with breakdown by complaints received from third parties, whose justification was checked by the organization, and by complaints from controlling authorities, as well as report the total number of uncovered cases of leaks, theft or loss of consumer-related data.

### Corporate governance section

1. The organization's corporate governance system and its principles are described.
2. For an organization – joint-stock company.

The organization provides information on the number of authorized and outstanding shares with indication of their type (class), face value, number of shares in free float, the composition of shareholders holding the organization's shares in the number of five or more percent from the number of shares sold during the reporting period.

Information on all substantial deals in shares of the organization in the reporting period and changes that took place in the composition of shareholders holding shares in the number of five or more percent from the number of shares sold during the reporting period.

Information on all deals in the reporting period on initial offering of shares, buy out by the listed company of own shares and their consequent re-selling with indication of the volume of deals in the quantitative or monetary terms, the price of offering and buyback, names of the buyer and/or buyer of shares and its location (if such information is known to the organization).

For an organization – limited liability partnership.

The organization provides information on all substantial deals with shareholdings in the organization's shareholder capital and changes occurred in the compositions of the organization's partners during the reporting period, the composition of participants as of the reporting date.

3. Information on the organizational structure is provided.
4. Organizations' management

The organization discloses the surname, name, patronymic, year of birth of each member of the Board of Directors (supervisory board) of the organization, including the Chairman of Board of Directors (supervisory board) and independent directors, of each of members of the collegial executive body of the organization (persons carrying out functions of the sole executive body of the organization); positions occupied by each member of the Board of Directors (supervisory board) and by each member of the collegial executive body (person carrying out functions of the sole executive body of the organization) over the past three years and currently, in chronological order with indication of the area of activities, as well as data on the number of shares (stakes in the shareholder capital) of the organization and/or its subsidiaries and affiliates they hold, participation in committees of the Board of Directors, functional authorities and duties.

The organization must provide the procedure of nominating and appointing candidates for members of the Board of Directors (supervisory board) of the organization, its committees, as well as criteria used during nomination and appointment with account to factors of diversity, independence, professional qualification and experience. The organization indicates names of committees of the Board of Directors and their functions. Procedures used by the Board of Directors for preventing conflicts of interests and their management must be provided.

The organization discloses information on the role of the Board of Directors in the analysis of the efficiency of methods of management of risk related to economic, ecologic and social issues, used by the organization. The organization has to provide data on the procedure of assessment of activities of the Board of Directors, as well as indicate, whether that assessment is independent and how often it is conducted.

The organization provides details of the procedure of informing the Board of Directors about emergence of critically important problems in the organization and the number of problems presented for consideration in the reporting year.

5. Internal control and auditing.

The organization provides information on key risks and significant problems with regard to the organization's operation detected during internal auditing.

Information is provided about measures taken to minimize said risks and problems

6. Information on dividends.

The organization indicates main principles of its dividend policy, details of paid out dividends or reasons for their non-payment over the past three years, the current price of shares, earning per share, book value of one share.

7. The organization provides details of the information policy on shareholders (founders), current and potential investors, its main principles.

8. Information on remuneration.

The organization discloses information on total amounts of main remuneration and bonuses paid to members of the supervisory and executive bodies of the organization for the reporting year, and criteria of their defining.

9. The organization provides a report on compliance with provisions of the corporate governance code and/or measures taken to comply in the reporting year.