



Association  
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Businesses



# SUSTAINABILITY: AREA OF COMMON ENDEAVOR

AEB's spotlight on environmental, social and governance affairs

Partnership in  
sustainability: what it  
means businesswise

ESG in Russia: more  
than just a foreign or  
fashionable trend

Ensuring long-term  
prosperity of companies:  
sustainable efforts

How ESG programs  
impact staff well-being  
and attract top talent





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STEERING COMMITTEE

# Dear readers,

AEB is pleased to release the second edition of our sustainability journal titled "Sustainability: Area of Common Endeavor". The title reflects our view that sustainability is perfectly fit for AEB's core objective – to maintain bridges against all odds.

The amount, variety and depth of the articles in this journal confirm that sustainability is getting even more topical for businesses of very different industries and professionals of very different backgrounds.

In particular, the journal:

- » outlines opportunities for partnerships in sustainability, as well as latest developments in Russian carbon market, ESG banking, responsible aviation and shipping finance;
- » explores ESG dimension of GR, communications, shareholders rights and employees' well-being;
- » provides for case studies in retail, pharmaceuticals and other industries, as well as in water, waste and carbon footprint management.

We hope you would find the articles useful.

Truly grateful to the authors who made this journal possible, and we always look forward to welcoming new members to join the AEB Green Initiative.<sup>1</sup>

<sup>1</sup> To join Green Initiative please e-mail Julia Gavrikova via [julia.gavrikova@aebrus.ru](mailto:julia.gavrikova@aebrus.ru).

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# Sustainability <sup>↗ ↗</sup> trends and opportunities

# Partnerships in sustainability



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**Investments and impact.** Sustainability is all about business making an impact. Major impact truly comes from major investments in greenfield<sup>1</sup>, brownfield<sup>2</sup> and R&D projects. The scale of the investment defines the extent of the impact.

**Benefits of partnerships.** Projects in sustainability are commonly capital intensive, technologically complex and sophisticated in terms of structures. Investments of that nature, regardless of the industry, are frequently done via partnerships and alliances of several major corporations. In some cases, such partnerships are backed by development institutions and finance-fueled by banks. That enables parties to achieve the following core objectives:

- » Sharing a project's costs and risks, which in turn enables businesses to free up the funds that they would spend if they implemented the project alone — and utilize such funds to other needs.
- » Consolidating financial, technological, GR and other resources, creating synergies and economy of scale.
- » Developing products and technologies that are beneficial to the market as a whole, including for competing businesses.

**Global partnerships in energy transition and sustainability.** Looking at the global landscape, sustainability becomes an increasingly attractive area for joint ventures (JV) and strategic alliances. That is especially the case in respect of energy transition, such as in power storage or new energy vehicles. Most recent trend is establishment of coalitions of corporations, investment institutions and other actors looking to develop energy infrastructure for artifi-

cial intelligence, data centers and other facilities.

Such JVs and alliances, as well as M&A and broader investment activities are not limited to G7 countries. They are also being established between Chinese and Saudi Arabian businesses, for instance. Central Asian countries such as Kazakhstan and Uzbekistan are also catching up, particularly in the area of renewables.

**Russian partnerships background.** Over the past 30+ years Russian businesses have successfully created numerous joint ventures in oil & gas, automotive, industrial manufacturing and many other areas. Some of those, in particular with Western partners, have unfortunately been terminated recently. At the same time, new partnerships are now starting to emerge between Russian domestic actors, as well as with BRICS+ and other countries.

**Russian sustainability framework.** Russia has and continues to develop a diverse set of laws and policies overlapping with the UN Sustainable Development Goals (SDGs)<sup>3</sup>. Part of Russia's 'technological sovereignty and structural adaptation of the economy' policies in fact relate to SDGs as well.

Many Russian major corporations and banks implement numerous sustainability initiatives, in particular, in terms of (i) carbon neutrality, energy transition, waste management and environmental integrity, (ii) massive integrated territorial development projects, social benefits for employees and support to local communities; (iii) introducing sustainability into corporate governance, non-financial reporting, obtaining ESG ratings, and raising green, social and sustainability-linked finance.

<sup>1</sup> Construction of new facilities from scratch.

<sup>2</sup> Upgrades to (modernization of) or other project activities with existing facilities.

<sup>3</sup> See 'Essentials of Russian ESG Laws and Policies', AEB Business Quarterly, Summer 2023, pp. 40-43.



**Projects in sustainability are commonly capital intensive, technologically complex and sophisticated in terms of structures. Investments of that nature, regardless of the industry, are frequently done via partnerships and alliances of several major corporations. In some cases, such partnerships are backed by development institutions and finance—fueled by banks.**

#### **What does this mean businesswise.**

Businesses operating in Russia may consider consolidating their resources to achieve common objectives in terms of both general business development and sustainability.

For example, quite a number of businesses (both Russian and multinational subsidiaries) have set voluntary targets to decarbonize their power consumption and achieve carbon neutrality. Arguably, an elegant way of meeting those goals would be to jointly participate in the capital of companies implementing renewable, large hydro or possibly other low-carbon power facilities. Depending on a particular project's set-up, participants of such projects may be entitled to an agreed portion of:

- » profits from the sale of capacity and power; and
- » green attributes, such as certificates of origin, carbon credits and other instruments<sup>4</sup>.

**Beyond green.** Energy transition is at the core of sustainability. However, the scope of sustainable projects is way beyond energy transition or “green” only. It includes virtually anything that:

- » contributes to SDGs, or put simply — making things around better;
- » enables parties to extract cash from the project — making it an investment as opposed to charity.

**Corporate structures and regulatory incentives.** Such joint participation may take the form of classic JVs (an entity with several shareholders and an agreed governance mode), investment funds, investment partnerships or others. The selection of a particular form would be driven by various corporate, tax and other considerations.

Businesses may also consider assessing whether their particular sustainability-related project is eligible for any regulatory incentives that Russia offers to private sector entities contributing to infrastructure, technological advancements, welfare, social, environmental and broader development objectives<sup>5</sup>.

**Going global.** One could argue that sustainability is perfectly placed to be a

common ground for Russia and the world at a time of global instability, in particular, in terms of joint business projects that contribute to the public good.

And one may further argue that exploring opportunities for such projects should not be put off to the distant future, but rather a matter of today.



<sup>4</sup> See ‘Carbon markets and energy transition instruments: what they are and what business can do with them’, AEB spotlight on the green agenda ‘Moving towards sustainability’, November 2023, No. 1, pp. 10-12.

<sup>5</sup> See ‘Major Investments and Innovations in Russia: Regulatory Frameworks and Incentives’, AEB Business Quarterly, Winter 2022-2023, pp. 14-16.

# Russian carbon market development



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Following the ratification of the Paris Climate Agreement in September 2019, Russia is now entering an active phase of development with regard to carbon regulation. Russia together with many other countries has joined the global effort to limit global warming to 1.5-2 degrees Celsius by 2100, compared to the level of the pre-industrial era (i.e. the 19th century). In collaboration with domestic businesses and experts, the Russian government is developing a comprehensive legislative framework to support the country's transition to a low-carbon economy. The Russian government is also developing a carbon market and the necessary infrastructure to allow local companies to participate in carbon market projects.

In November 2020, the President signed Decree No. 666 'On the Reduction of Greenhouse Gas Emissions'. This Decree instructed the government to develop a strategy for the socio-economic development of the Russian Federation with low greenhouse gas emissions. One year later, in November 2021, Prime Minister approved this Strategy until 2050. It outlines a path to carbon neutrality in the Russian Federation by 2060, with two scenarios: an inertial and a target (intensive) scenario.

As of 24 August 2024, the Ministry of Economic Development has proposed revising the Strategy's goals in a more ambitious direction. In particular, the baseline scenario would set a target to reduce net CO<sub>2</sub> emissions to 1.483 billion tonnes CO<sub>2</sub> equivalent by 2030, which is 11% lower than the target set in 2021.

Furthermore, in July 2021, following extensive collaboration between government and business, Federal Law No. 296 'On Limiting Greenhouse Gas Emissions' was adopted. This law represents a significant step forward in the development of the carbon market. The legislation introduced mandatory

reporting on greenhouse gas emissions for the largest emitters (from 50,000 and 150,000 tonnes of CO<sub>2</sub> equivalent) in two stages. Furthermore, a legal framework has been established to facilitate the trading of carbon units (offsets) and the implementation of climate projects.

The implementation of this draft law necessitated further work on the development of additional by-laws with the objective of aligning the entire legislative framework.

One such initiative was the introduction of legislation to define and regulate climate projects and the rules governing their implementation. In May 2022, Order No. 248, 'On Approval of Criteria and Procedure for Attributing Projects Implemented by Legal Entities, Individual Entrepreneurs or Individuals to Climate Projects, Form and Procedure for Submitting a Report on Climate Project Implementation' was signed. This Order introduces the rules for implementing climate projects in Russia and defines the criteria and reporting form. In preparing the document, the Russian side was guided by the highest international standards.

Consequently, Russian companies aiming to reduce their environmental impact and optimize their carbon footprint, including through offsetting measures, can now do so by implementing a climate project and issuing carbon units (offsets).

As part of the development of a centralized infrastructure for carbon regulation in Russia, a national cadastre for anthropogenic greenhouse gas emissions has been created, as well as a register for greenhouse gas emissions and climate projects and units of carbon.

In accordance with Federal Law No. 296, large emitters of greenhouse gases (defined as those exceeding 150 thousand tonnes of CO<sub>2</sub> equivalent per

year) will be required to calculate their emissions, prepare a report, and submit it to the registry from 2023. Smaller emitters (defined as those exceeding 50 thousand tonnes of CO<sub>2</sub> equivalent per year) will be required to do so from 2025. The registry will facilitate the automatic collection of reports from Russian companies. This mechanism will form the factual basis for achieving carbon neutrality by 2060 and may also pave the way for the introduction of a carbon price in the near future.

In addition, the Federal Law applies to both legal entities and individual entrepreneurs engaged in regulated activities. To ascertain whether your organization is required to submit a report on greenhouse gas emissions, we can refer to the dedicated resource <https://co2.gisee.ru>. The greenhouse gas emissions register operates on the basis of the State Information System 'Energy Efficiency'.

The core component of the Russian Federation's carbon regulatory framework is the registry of climate projects and carbon units. Its activity is governed by the Russian Government Decree of 30.04.2022 No. 790 (ed. 23.05.2024) 'On Approval of the Rules for the creation and maintenance of the register of carbon units, as well as operations with carbon units in the register of carbon units'.

As of 7 November 2024, Russia has registered 40 climate projects, with a total of 84.7 million carbon units issued or planned for issuance. The outcome is highly satisfactory, but the country is aiming for even greater results. Consequently, the Russian government has amended Resolution No. 790, which streamlines the process of reducing (offsetting) the carbon footprint through the cancellation of carbon units within the registry. This will enable a greater number of participants to enter the carbon market.

Climate projects and carbon units represent a novel area of economic and legislative activity in Russia. It is crucial, particularly at the state level, to identify a viable strategy to stimulate demand for carbon units, at least during the initial phase. By way of illustration, in February 2024 the President of the Russian Federation signed a law that exempts the services of the operator of the carbon unit registry (Kontur) from VAT.

In addition to carbon units, Russia will begin issuing the first emission performance credits in 2025, according to Federal Law No. 295. This is the verified result of implementing the established carbon allowances, expressed as the

difference between the emission performance credits (so-called quota) and the actual volume of greenhouse gas emissions, equivalent to one tonne of carbon dioxide. To date, the emission performance credits have been established as part of the pilot programme to introduce carbon regulation on Sakhalin. This experiment is carried out in accordance with Federal Law No. 34 on conducting an experiment to limit greenhouse gas emissions in certain constituent entities of the Russian Federation.

The objective of this experiment, which will run until 2028, is to achieve carbon neutrality in Sakhalin by the end of 2025. Regional regulated entities that have received quotas – carbon allowances (from 20,000 tonnes of CO<sub>2</sub> equivalent) for GHG emissions from their operations on Sakhalin and can become emission performance credits holders, provided that the specific level of GHG emissions per year falls below the quota. In this case, the volume of the emission performance credits will be calculated as the difference between the quota (carbon allowances) and the organization's actual GHG emission level. This will be registered in the Kontur registry and will serve as the basis for issuing carbon units equal to the volume of the emission performance credits into circulation.

It would be remiss not to mention the role of the bodies responsible for the validation and verification of reports on greenhouse gas emissions and climate projects, which are an integral part of the country's carbon regulation infrastructure. The Government of the Russian Federation, in its Decree of 24.03.2022 No. 455 'On Approval of the Rules for Verification of the Results of Climate Project Implementation', and the Ministry of Economic Development of the Russian Federation, in Order No. 248 of 11 May 2022, have established the procedures for the validation and verification of climate projects. A climate project can be registered in the Kontur registry on the basis of a validation report. The report on the verification of the result of the climate project allows the release of carbon units into circulation, which the company can then sell. In the exchange and over-the-counter markets, they can be transferred to a withdrawal account to repay or reduce a company's carbon footprint. Alternatively, they can be left on the company's account in the Kontur registry for future use. Carbon units have no expiry date and can be considered an asset worthy of investment consideration.

A crucial element for the development of the carbon market in Russia is also the availability of green finance for green and adaptation projects. Following the adoption of the so-called taxonomy of green projects in the Russian Federation, the green finance sector is actively developing. To date, instruments such as loans (credits) and bonds, called green bonds, are available in Russia.

In November 2022, the Russian Federation expanded the range of eligible bonds for social issuance to include adaptation bonds, those linked to sustainable development goals and climate transition bonds. Consequently, organizations engaged in green economy projects can now access capital from the market, while investors with a focus on developing relevant initiatives are presented with new ways for investment. It is also worth noting that Russian regions are entering the green bond market. In 2021, the Moscow City Government placed a record for the Russian market amount of 70 billion roubles in bonds. The proceeds were used to finance the introduction of low-carbon transport in the city, including electric buses and a metro.

In conclusion, Russia has made significant strides over the past three-four years in developing the legislative framework and the necessary infrastructure to establish a carbon market. The country currently has both a voluntary and a regulated carbon market. By the end of 2023, more than 1,000 Russian companies had become participants in the greenhouse gas emissions reporting system. With the introduction of mandatory reporting for smaller emitters from 2025, we anticipate this figure to increase tenfold and even more.

Another key area of focus for carbon regulation is aligning standards and approaches in this market with Russia's major international partners. Primarily, this encompasses the EAEU and BRICS+ countries. Recently, the BRICS Contact Group on Climate and Sustainable Development was successfully launched, which will serve as the primary platform for developing joint initiatives and discussing ways to harmonize the climate legislation of member countries.

# A global framework for responsible aviation and ship financing



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## Abstract:

Since the global community's recent determination of ESG goals, international and local actors have been continuing to develop comprehensive and industry-specific ESG principles and compliance assessment frameworks. The aviation and shipping industries, commonly named as being among high-yield emitters, together with top-tier financial institutions, are taking a proactive role in this process. This article explores a few of the most prominent ESG initiatives in these spheres: the Poseidon Principles and the Pegasus Guidelines, and reveals the potential for their implementation in Russia.



## Introduction

The significance of ESG initiatives and their influence on the sphere of private financing is now beyond dispute.

As investors have determined sustainable objectives and undertaken to pursue them, financial market participants are in desperate need of a harmonized framework providing for common principles and criteria necessary for sustainability assessment procedures of projects that adhere to ESG values.

Recent ESG implementation challenges, particularly greenwashing, highlight the significance of developing common sustainable finance standards for various industries. In this regard, key market players are cooperating to design and further develop area-specific ESG frameworks. One of the first such initiatives in the finance sector is the Equator Principles – a risk management framework adopted by 130 global financial institutions to determine, assess and manage environmental and social risks in project financing. As of today, the Equator Principles have become the financial industry gold standard for environmental and social risk management in all industry sectors.

In the meantime, the application of green and sustainable finance principles specifically to the transportation industry has long been challenging due to the lack of definitive criteria as to what constitutes green or sustainable financing in this context.

Since aviation and shipping are among the world's biggest CO<sub>2</sub> emitters, the development of robust pillars of sustainability for these areas of economy, including for sustainable investment and financing purposes, is of vital importance.

Given the concern for aviation and shipping sourced pollution levels, in an attempt to facilitate the accessibility of "green" funding to shipping and commercial aviation industry players, leading global banks came together to put forward breakthrough initiatives – the Poseidon Principles and the Pegasus Guidelines.

## The Poseidon Principles

The Poseidon Principles are a set of voluntary guidelines that form a comprehensive framework for disclosing information on and assessing the climate alignment of lenders', lessors' and financial guarantors' (including ECAs') ship finance portfolios.



**Recent ESG implementation challenges highlight the significance of developing common sustainable finance standards for various industries. In this regard, key market players are cooperating to design and further develop area-specific ESG frameworks.**

Launched in June 2019 in response to persistent efforts of the shipping industry to switch to more environment-friendly alternatives, the Poseidon Principles aim to promote sustainable shipping finance by encouraging financial institutions to incorporate climate considerations into their financing practices. The founding 11 signatory banks representing around 20% of global ship financing established goals to reach the "below 2°C" target set by the Paris Agreement and the target of cutting greenhouse gas emissions from global shipping by 50% by 2050 set by the International Maritime Organization (IMO). Presently 35 leading international banks, jointly representing approximately 80% of the global shipping finance market, provide financing to shipping companies in compliance with the Poseidon Principles.

The Poseidon Principles apply exclusively to credit products (bilateral loans, syndicated loans, club deals, guarantees, etc.) secured by vessel mortgages or finance leases secured by title over a vessel or an unmortgaged Export Credit Agency (ECA) loan tied to a vessel, where the vessel or vessels fall under the purview of the IMO (e.g. vessels with a 5,000 gross tonnage and above which have an established Poseidon Principles trajectory whereby the carbon intensity can be measured using IMO Data Collection System data).

The Poseidon Principles set up four basic rules of responsible ship financing:

1. **Assessment:** financial institutions annually assess their shipping portfolios against the international IMO decarbonization targets, specifically aiming at a reduction in greenhouse gas emissions. This assessment is based on a robust industry-appropriate methodology outlined in the technical guidance of the Poseidon Principles.

2. **Accountability:** any information submitted by a financial institution in compliance with the Poseidon Principles shall be unbiased and proceed from trustworthy and respectable sources (i.e. classification societies and other IMO recognized organizations in compliance with the mandatory regulation established by the IMO for the data collection and reporting of fuel oil consumption from ships (IMO Data Collection System)).
3. **Enforcement:** signatories will include a covenant clause, or a binding agreement, in all new shipping business activities which ensures access to high quality data and compliance with the Poseidon Principles and undertake to work with clients and partners to gather the necessary information to calculate emission intensity.
4. **Transparency:** financial institutions commit to publicly report their alignment with the principles on an annual basis, which enhances transparency and accountability in the shipping finance sector, as the Poseidon Principles encourage collaboration among banks, shipping companies and other actors to foster sustainable practices in commercial maritime transport. The signatories publish their climate alignment scores in the Poseidon Annual Disclosure Report and their own corporate reports each year – the latest reports for 2023 show improvement in banks' alignment with decarbonization targets compared to 2022 reports.

To enhance the practical implementation of the Poseidon Principles a standard covenant clause was developed which provides for an information disclosure covenant for shipowners and covers the specific information needed to calculate climate alignment in accordance with the Poseidon Principles.



The standard clause is available at the official website of the Poseidon Principles.

### The Pegasus Guidelines

The Pegasus Guidelines are a standardization initiative and climate-aligned finance framework for the aviation sector setting directions and best practices aimed at enhancing safety, efficiency, and sustainability of aviation operations. They were designed to promote sustainable investment practices and guide financial institutions in integrating ESG considerations into their decision-making processes.

Launched in April 2024 by the Rocky Mountain Institute, an independent non-profit organization focused on a low-carbon energy future, in cooperation with five leading global banks and involving a broad consultation with industry players and experts, the Pegasus Guidelines introduce a framework for financial institutions to independently calculate and disclose the emissions intensity and climate alignment of their aviation lending portfolios.

The Pegasus Guidelines are applicable to and can be applied in various financial products, including, but not limited to, bilateral loans, syndicated loans, direct equity, etc.

Although the Pegasus Guidelines provide for similar methodology and criteria as the Poseidon Principles, the Pegasus Guidelines operate industry-specific terms in the course of the calculation.

The Pegasus Guidelines encompass three major methodological recommendations:

1. **Standardized Measurement of Emissions:** provides for a nine-step

methodology for calculating the climate alignment of the portfolio; it also draws the difference between aircraft-specific financings and general-purpose financings (i.e. that in aircraft-specific financings (i) the facility in the aircraft specific financing is secured by aircraft collateral and (ii) the facility has a use of proceeds relationship to the aircraft collateral (secured aircraft purchase financing or refinancing)) and specifies detailed finance criteria to fall within the scope of the framework.

2. **Consistent Approach to Data Access:** establishes strict requirements for data sources to be used for assessment – the information must be sourced directly from the client or a qualified third-party provider.
3. **Annual Disclosure:** enlists the parameters to be disclosed annually by means of financial statements.

Similar to the Poseidon Principles, to encourage expansion of practical use, sustainability-related data disclosure clauses were developed for the Pegasus Guidelines. They are available upon request from the Rocky Mountain Institute.

As the Pegasus Guidelines are a brand-new framework developed for aviation, there are no available reports on their use yet. However, the industry has great expectations in connection with the perspectives of their use in practice.

### General conclusions and implementation in Russia

The Poseidon Principles and the Pegasus Guidelines have been developed for financial institutions to assess the projects they are financing. However, these frameworks also serve aviation and shipping companies in setting sustainable targets in their business to be

eligible for financing provided by financial institutions that work within these frameworks. These two objectives together provide for a greater transparency for the whole industry as to the clear and specific ESG objectives to aim for.

Since the Poseidon Principles and the Pegasus Guidelines were designed by Western financial organizations, they have spread among foreign (both Western and Eastern) markets but have not yet been widely used in Russia. However, in 2020 one of the most prominent Russian shipping companies, "Sovcomflot", entered into a Poseidon Principles-compliant financing transaction with a pool of international banks, which at that time was one of the first such Poseidon Principles-compliant deals in the global shipping industry.

In the meantime, Russian aviation and shipping companies are pursuing ESG values by aligning their business with, in particular, the United Nations Sustainable Development Goals, the Paris Agreement and the International Organization for Standardization of ESG principles. Together with the Taxonomy for Green Projects and the Russian Green Finance Guidelines developed (including with reference to the mentioned global principles and goals) by VEB.RF and the Russian Government, this creates for financial institutions a starting point in assessing transportation industry companies' sustainability status and, ultimately, their eligibility for green financing.

Therefore, the innovative Poseidon Principles and the Pegasus Guidelines have good potential and serve as a launching platform for implementation and expansion in Russia in the future.



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# ESG <sup>↗ ↗</sup> implementation

# The role of GR in corporate sustainability strategy



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Andrei has written two books on energy and climate policy.

## Abstract:

Sustainable development at the corporate level is increasingly reflected in the social and environmental responsibility of business. Most often, this is expressed through the contribution of business to achieving sustainable development goals (SDG). This understanding of sustainable business development is associated with the need to include the company in the national landscape of sustainability, since the government is responsible for the development, implementation and reporting on the national sustainable development strategy (or national goals). As a result, effective participation in national sustainable development plans requires close communication with government agencies that are directly responsible for achieving SDG. In other words, the role of GR is significant both at the stage of developing a corporate sustainable development strategy and at the stage of its implementation. The article describes in more detail the role of GR in developing an ESG strategy and provides relevant recommendations.

Sustainable development at the corporate level is usually understood in two ways:

- » in a pragmatic sense, as *identification and mitigation of the most relevant non-financial risk factors*;
- » as an *increase in the social and environmental responsibility of business*, which is equivalent to the contribution of business to achieving sustainable development goals.

If a company focuses on the first approach, it usually develops an ESG strategy, i.e. identifies the most significant environmental, social and governance factors and takes steps to mitigate the corresponding risks and publishes non-financial reporting. The methodological basis for identifying such non-financial factors is the materi-

ality assessment, described in the GRI standards and other guides.

If a company focuses on the second approach, that is, on increasing the social and environmental responsibility of business, it develops a sustainable development strategy and strives to make a positive contribution to achieving the UN Sustainable Development Goals (SDGs), also publicly disclosing information about its activities.

Understanding sustainable business development as increasing social and environmental responsibility is associated with the need to include the company in the national context, since the government is responsible for the development, implementation and reporting of the national sustainable development strategy.



In this sense, more and more government and public initiatives are emerging aimed at involving businesses in achieving the SDGs. There are quite a few such initiatives at the international level, but the most important is the UN Global Compact. The Global Compact's activities are aimed at involving businesses in achieving the SDGs and forming a global partnership between the government and corporate sectors.

However, initiatives to involve businesses in achieving the SDGs are also taking place at the national level. It is worth highlighting the draft standard for reporting on sustainable development, developed by the Ministry of Economic Development of Russia and currently undergoing public discussion. The standard under discussion recommends that companies disclose information on their contribution to achieving the SDGs and national development goals of Russia. At the same time, the disclosed information must be confirmed by quantitative data.

It is clear that most often companies combine both approaches in their corporate sustainability strategies, but the second approach is becoming increasingly significant and it seems impossible to avoid it, since the role of governments in the sustainable development agenda is crucial.

The number of public corporate sustainability strategies (both sustainable development strategies and ESG strategies) in Russia is steadily growing. Therefore, it is important to note that *for correct and effective participation in national sustainable development plans, close communication with government agencies that are directly responsible for achieving the SDGs and national goals is necessary.*

Since ESG is based on the concept of stakeholder capitalism and assumes systemic stakeholder engagement (including regulators), the GR strategy can also rely on elements of the sustainable development strategy. This approach creates strong cross-functional connections and improves the quality of strategic management.

In this regard, the development and implementation of a company's sustainable development strategy should be accompanied by GR communications in order to:

- » Avoid only declarative goals. Today, there is no generally accepted methodology for accounting for the contribution of business to achieving the SDGs and national goals, that is, business can most often only declare its contribution to their achievement, but can rarely evaluate this contribution. Without communication and preliminary discussion of the company's strategic goals for sustainable development with the regulator, the goals may remain a declaration.
- » Ensure that the company's goals contribute to improving the company's reputation in the eyes of government agencies.
- » Ensure that the company's goals include social and environmental responsibility that will be of real significance to government agencies.

As a result, the role of GR is significant both at the stage of developing a corporate sustainable development strategy and at the stage of its implementation.

When developing a sustainable development strategy, it is important:

- » To analyze the national sustainability landscape and government sustainability plans and determine the company's place in these plans.
- » To conduct in-depth interviews with key government agencies whose activities relate to sustainability to assess and agree on the company's sustainability goals and manage stakeholder expectations. However, at present, such communication will not result in the company taking on new obligations.
- » To send the final strategy to relevant regulators (who participated in the discussion) for information.

At the stage of implementing the sustainable development strategy, it is advisable:

- » To monitor the activities of relevant government agencies in the field of sustainable development.
- » To include sustainable development aspects in communications with regulators (in correspondence, regular meetings and presentations, meetings of public and advisory councils, etc.).
- » When engaging stakeholders, to strive to involve the regulator in ESG initiatives.
- » To notify regulators of changes and adjustments to the sustainable development strategy.

Communication with government agencies both at the development stage and during the implementation of the sustainable development strategy will improve the quality of strategic management and will also introduce an additional positive element into communications with regulators.

# Sustainable development and ESG in today's Russia: more than just a foreign or fashionable trend



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TABAKOV**

**CHIEF RISK MANAGER,  
THURICUM INSURANCE  
COMPANY**

Artem Tabakov holds a PhD in Economic Sciences and has over 20 years' insurance industry experience working for international and Russian insurance companies.

His ESG journey began several years ago with the participation in various initiatives to reduce the carbon footprint of the Company.



**EREENA  
SOMOV**

**CHIEF CLAIMS OFFICER,  
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With a background in private (common law) legal practice, Ereena Somov has 25 years' insurance industry experience, including working for international and Russian insurance companies.

Her interest in responsible corporate governance reflects her not-for-profit boardroom service as well as her experience in managing complex claims brought against company directors and officers.

Ereena completed ESG transformation training at the Plekhanov Russian University of Economics in 2023.

## Abstract:

Growing consensus among business leaders about the importance of ESG factors and sustainable development for the future sustainable growth of Russia's economy makes it incumbent upon public joint-stock companies and other corporates seeking a competitive edge to pay serious heed to these issues. Against this background, the authors address the importance of ESG factors, discuss their relevance for underwriters, identify possible risks for companies that fall short of their representations in this area, and offer practical suggestions for companies seeking to implement ESG principles.

Surveys on ESG and sustainable development issues suggest that many Russian companies promote an agenda of social responsibility and responsible corporate governance. Most corporate leaders intuitively understand the importance of those areas, especially when their efforts yield tangible and



relatively quick results. Few would seriously dispute the value of protecting the environment or the benefit of using energy-saving technologies and renewable energy sources (however much their attitudes to climate change and the impact of humanity on that process might differ), yet implementation of the “E” pillar remains underdeveloped in Russia even though Russian and international risk management professionals agree that environmental issues will dominate the risk landscape in the next 10 years.

In 2021 the Central Bank of Russia issued recommendations for public joint-stock companies on how to incorporate ESG factors and sustainable development issues into their strategies and corporate governance systems (including risk management and internal control) for the creation of long-term sustainable value for all stakeholders.<sup>1</sup> In 2022 the Regulator similarly recommended that financial institutions’ management bodies should take social development and environmental protection issues into account as part of their corporate governance procedures.<sup>2</sup> Time will tell whether public companies’ now voluntary disclosure<sup>3</sup> of how they take account of and integrate ESG factors into their business

model and development strategy will eventually become mandatory. For now, the Regulator’s recommendations send a strong signal to Russian companies that healthy corporate governance and risk management means taking ESG factors into consideration. In the meantime, as with all reporting, public companies disclosing information must take care to avoid incomplete, inaccurate or misleading representations. Failure to do so is bound to incur at least the disapproval of the Regulator. Although shareholder litigation in Russia is considered unlikely (it would be rare for plaintiffs to be able to demonstrate financial loss as a result of relying on that information), the reputation of the company, as well as its ESG rating (if any), will likely suffer.

As compliance with ESG standards and/or regulations becomes an increasingly mandatory condition of participation in international markets, and notwithstanding the geopolitical shifts of recent years, Russian companies wishing to trade with non-Russian partners and/or beyond Russia’s borders must think seriously about implementing an ESG strategy. The EU’s Carbon Border Adjustment Mechanism (CBAM), which comes into full effect from 2026, will levy a carbon tax on car-

bon-intensive goods (iron, steel, cement, fertilizers, aluminum, electricity and hydrogen) imported from countries outside the EU with less stringent environmental regulations or lower carbon costs. Importing companies will have to calculate the amount of carbon dioxide embodied in the imported goods and purchase a CBAM certificate to pay the difference between the carbon price in the producing country and in the EU. Whilst the export level of many carbon-intensive Russian goods to the EU in the wake of sanctions restrictions may have lessened the impact of CBAM on Russian companies to some extent, its impact will doubtless be felt by Russia’s trading partners.

Today Russia attaches great importance to the development of the ESG agenda within the BRICS framework. BRICS countries affirm the importance of sustainable development and advocate for the “*adoption of common, effective, clear, fair and transparent standards and rules for assessment of emissions, elaboration of compatible taxonomies of sustainable projects as well as accounting of carbon units*”.<sup>4</sup> The Declaration adopted by the BRICS Summit in August 2023 called for the implementation of the 2030 Agenda for Sustainable Development and re-

<sup>1</sup> Bank of Russia Information Letter No. IN-06-28/96 dated 16.12.21 “On recommendations for Board of directors of joint-stock companies on accounting for ESG factors and sustainable development issues”

<sup>2</sup> Bank of Russia Information Letter No. IN-02-28/145 dated 28.12.22 “On recommendations for financial institutions on incorporating ESG factors and sustainable development issues into their corporate governance procedures”

<sup>3</sup> Pursuant to Bank of Russia Information letter No. IN-06-28/49 dated 12.07.21 “On recommendations for joint-stock companies on the disclosure of non-financial information pertaining to their activities”

<sup>4</sup> XV BRICS Summit, Johannesburg II Declaration, BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism, Sandton, Gauten, South Africa, 23 August 2023

emphasized the importance of implementing the United Nations Framework Convention on Climate Change and its Paris Agreement.

Since 2012 an increasing number of global insurance companies have become signatories to the UN Environment Programme Finance Initiative Principles of Sustainable Insurance (PSI)<sup>5</sup> and/or sought to integrate ESG factors into their business practices and decision making, including proactively engaging with potential insureds to understand their plans to reduce their carbon footprint and align with insurers' own sustainable development ambitions, and limiting insurance for industries from so-called "brown" or "dirty" industries with a high level of carbon emissions. It should be noted that although no Russian insurance companies have signed the PSI, depending on the industry in which potential insureds operate, it is not unreasonable to expect that, as part of their review of available information, some Russian underwriters might have regard to a company's ESG rating and/or professed ESG practices when assessing the quality of its overall risk management practices and the health of its corporate governance.

Small Russian companies focused on surviving in a changing economy are unlikely to be guided by entirely altruistic goals when considering whether to implement ESG principles. They may be reluctant to deploy significant resources without the prospect of short-term returns. Nevertheless, as ESG is no longer just a foreign or fashionable trend gaining momentum but an undeniable reality both at home and abroad, no company serious about its future can afford to stay on the sidelines. It is virtually impossible to find any significant corporation that has not developed an ESG strategy, which usually includes, all other things being equal,

giving preference to working with contractors and suppliers and/or investing in companies that can reliably demonstrate their environmental and social responsibility (including, in some cases, by reference to an ESG rating).

Regardless of their motivation, embarking on an ESG journey can seem daunting for smaller companies, especially those not directly engaged in carbon-intensive industries. Our experience shows that to avoid ad hoc or haphazard approaches that produce superficial results, a good place to begin is to study the methodology and measurement criteria used by ESG rating agencies when evaluating how well a company is performing in terms of its environmental responsibility, labour practices, and corporate governance. Most Russian companies that declare their commitment to ESG principles have an ESG rating from one or more local rating agencies. The methodologies applied by those agencies are broadly similar and include a brief description of what must be implemented (policy documents, actions, procedures to account for task execution, etc.) to confidently assert adherence to ESG principles. Many are available online. Studying those methodologies gives companies on the threshold of their ESG journey a structured road map making it easier to define goals and the indicators of their achievement. Such companies might then wish to:

- » form a working group that includes personnel responsible for human relations, labour protection, social issues, government relations, risk management and internal audit;
- » assess the materiality of each ESG factor by reference to the company's stakeholders and industry (i.e. which factors most affect the company, how the company itself most affects the environment and society);

- » review the adequacy of existing social programmes and environmental measures;
- » prepare policies/internal regulations of the type envisaged by rating agencies, for example, with respect to risk management, responsible investments, client relations, the selection of suppliers/service providers, the work of the Board (including its role in approving and monitoring the implementation of ESG goals), the consideration of ESG risks within specific committees;
- » reduce the company's carbon footprint (this involves collecting and entering data into a specialized calculator to measure the company's existing carbon footprint, and monitoring the efficacy of initiatives implemented);
- » regularly measure employee satisfaction/staff turnover and take steps to maintain and increase the level of employee satisfaction, as well as promoting employee engagement in environmental and social initiatives;
- » increase the transparency of the company's business processes, for example, by clearly documenting and informing employees and other stakeholders of those processes; and
- » where necessary, consult with external experts.

The implementation of ESG principles is a long and painstaking process, requiring dedicated time and effort. Approached properly, it will promote the creation of long-term sustainable value for all company stakeholders, remain in step with the priorities of the Russian Federation and the Regulator, serve as an effective communication tool with the international market, and ultimately tread more lightly on our planet.



**As ESG is no longer just a foreign or fashionable trend gaining momentum but an undeniable reality both at home and abroad, no company serious about its future can afford to stay on the sidelines. It is virtually impossible to find any significant corporation that has not developed an ESG strategy.**

<sup>5</sup> <https://www.unepfi.org/insurance/insurance/the-principles/>

# How to build and reinforce the image of a responsible company



**DARIA  
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Daria Birich has been with maslov: agency for eight years, having grown from Account Assistant to Account Director.

Her roster of former and current clients includes industrial and tech companies, such as EL5-Energo (ex. Enel), Système Electric (ex. Schneider Electric), Daccord (ex. Legrand), EGGER, Hewlette Packard Enterprise.

Working with industrial companies enabled Daria to gain expertise in sustainability and ESG standards, which she uses to help clients with challenges in communication on these topics.

For the last couple of years, there has been an ongoing debate in the media and at business events about whether ESG has any relevance in the Russian market. The fact is many companies operating in Russia still develop and implement ESG strategies. For some of them, sustainability efforts remain one of the few topics over which they can stay in touch with their stakeholders and consumers. The task of communicating on the topic grows more challenging: companies compete for the Russian media's limited attention to sustainability, the state imposes its own agenda, and the customer becomes more discerning. The audience is willing to lend their ear only to those who make a real difference. Here's some insight on how to communicate as a genuinely responsible business.

## ESG and communications today

The sure way to gain a foothold in the media and the audience's mind is to follow trends.

Nowadays in Russia, there is a certain tilt toward Social. People are going through hard times and need support. According to a survey of sustainability experts by the "Business & Society" portal, brands feel it and respond to it by centering their efforts around a human's well-being. This is evident when one looks at shortlists of communication awards; many of the submitted projects are aimed at vulnerable communities. And certain brands are not afraid to raise topics some will hesitate to associate with, such as the rehabilitation of prisoners and domestic violence.

Greenwashing in the media is in decline. Primarily because Russian companies take ESG more seriously now, as sporadic CSR projects have evolved

into sustainability strategies tied to business ones. At the same time, the consumer has become more aware and can tell if there has been any real change. Some brands even have corporate guidelines for avoiding greenwashing in their public materials.

A survey commissioned by the Russian Union of Industrialists and Entrepreneurs from the Russian Public Opinion Research Center (VCIOM) in February 2024 showed that Russians understand the importance of personal contribution to environmental protection: 42% blame themselves for the deterioration of the environmental situation (and only then the authorities and the industry), and almost 50% consider citizens' low environmental responsibility the main barrier to its improvement. This means people are willing to act, and companies can help by sharing their expertise in the media or via educational projects.

One such project implemented by a fast-food company, which once was an ESG pioneer in Russia, illustrates the public's drive to improve the local environmental situation and do better. The #MyEcoDay campaign was designed to engage corporate volunteers across the company's geography in fighting waste pollution and promoting eco-consciousness. Over the years, local residents and small businesses have joined the volunteers, and now together they do plogging runs and pick up waste in natural areas as well as hold public talks on rational waste management. Those unable to join the events can participate in a "digital cleaning day" to learn about their digital footprint and ways to reduce it. In 2023, #MyEcoDay campaign gathered almost 5,000 participants across 78 Russian cities (vs 50 in 2020).



**Having an ESG strategy means that the company is aware of its obligations to various stakeholder groups and takes on these obligations. That its sustainability efforts are not a tribute to modern trends or a way to solve issues with stakeholders, but a part of its business.**

### Esse quam videri

Following the trends definitely makes a company seem like it understands the agenda and is attuned to consumer moods. But with the current level of awareness, consumers and stakeholders are quite sensitive to something seeming rather than being. The convincing image of a responsible company rests on these three elements: an ESG strategy/roadmap, a portfolio of projects, and openness.

Having an ESG strategy means that the company is aware of its obligations to various stakeholder groups and takes on these obligations. That its sustainability efforts are not a tribute to modern trends or a way to solve issues with stakeholders, but a part of its business. Not all companies have the resources to develop and implement a full-fledged ESG strategy (or localize HQ's global strategy), but any company can outline a roadmap of measures and projects to at least reduce and offset its impact.

Having a portfolio of implemented or ongoing projects indicates that the company's sustainability commitments are not just declarations and promises, not a PR track. The projects must follow some logic, i.e. correspond to the company's business and/or ESG strategy, and its values. For example, if an agricultural company talks about its efforts to help the Siberian tigers and then about stocking a waterbody in the Urals with fish, it will come off as greenwashing.

If the company has mastered these two elements, the next natural step is to tell its audience about it. That's when the openness comes into play. The least the company can do is to post its ESG strategy/roadmap on its website. By the way, publishing a brand new or updated strategy is a good reason to gather reporters to talk about sustainability. Communication on ESG projects must be regular and systematic; it should show progress and scalability support-

ed by the numbers: of educated children, saved kilowatts, involved corporate volunteers, etc.

### Tools for success

The task of promoting corporate sustainability efforts with traditional PR tools, e.g. press releases and articles, becomes increasingly challenging. Especially since the tightening of the Law on Advertisement in Russia. So, when laying out promotion plans for ESG projects, it's only logical to put aside some budget for advertorials, to make sure the desired messages reach their target audience.

Collaborating with media on sustainability topics based on mutual interest is not completely out of the question, though. As mentioned before, consumers admit their responsibility to the planet and society and are willing to act. Businesses can guide them by sharing their sustainability expertise in how-to articles. Most media care about providing useful content to their audience, so they too will appreciate the format.

Reporters are also in constant search for experts to comment on the topics they write about. Through this collaboration, a company speaker can highlight certain ESG projects as examples and best practices and even bring up issues they believe require more public attention while addressing a reporter's questions. Having a speaker with a well-built sustainability expert profile grants the company a platform in various media and creates "a responsible company" association.

The Russian market presents both challenges and opportunities for companies seeking to implement effective sustainability communications strategies. By focusing on social initiatives, avoiding greenwashing, and demonstrating genuine commitment, businesses can build trust with stakeholders and contribute to a more sustainable future. By embracing sustainability as a core value, businesses can not only enhance their reputation but also create long-term value for their stakeholders and society as a whole.



# ESG and shareholders' rights: current and potential legal implications



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Dina Kravchenko supports corporate, capital markets, fintech & life science projects. She has extensive experience in advising on various regulatory issues and supporting projects from complicated fields of regulations, including ones with “green agenda”.

She is a member of the International Bar Association (IBA), the International Young Lawyers Association (AIJA) and the International Compliance Association (ICA).

Dina graduated from the Faculty of Law of the Lomonosov Moscow State University.

In recent years, Environmental, Social, and Governance (ESG) considerations have become integral to corporate strategy and investor decision-making worldwide. ESG practices encompass a company's efforts to operate sustainably, ethically, and with good governance. For shareholders, these practices influence not only the ethical implications of their investments but also the long-term profitability and stability of the companies they invest in.

Globally, ESG practices have reshaped the relationship between companies and their shareholders. In Russia, this shift is influenced by both international trends and domestic developments. Here the prospects of integration of ESG factors into corporate governance depend on the approach of the shareholders and local regulator. This article explores how ESG practices affect shareholders' rights in Russia, which tools shareholders have in their disposal to influence corporate governance, and the potential risks and opportunities that may arise in this context.

Shareholders have rights enshrined in Russian corporate law, including the right to participate in decision-making, access information, and receive dividends. The Russian legal framework governing corporate governance is primarily outlined in the Civil Code of the Russian Federation and the Federal Law “On Joint Stock Companies” (“Law on JSC”). These laws establish the rights of shareholders and the duties of company directors. However, while they provide the shareholders with expected scope of corporate rights, there is no separate standalone ESG legislation in Russia, which would be devoted to the shareholders' position on ESG aspects.

The Central Bank of Russia, which also acts as a regulator of corporate governance practices, has been promoting the adoption of ESG principles. For the last couple of years, it has focused its efforts on developing tools and infrastructure for the sustainable development of financial market. This includes improving corporate governance and information disclosure to support sustainable development, as well as integrating ESG factors into regulation to adapt the financial market to new types of risks. These actions have taken form of recommendations and information letters, effectively existing as a “soft law”, e.g.:

- » Information Letter of the Bank of Russia dated 24 May 2023 “On Recommendations on Provision (Disclosure) by Financial Organizations of Information to Clients on Sustainable Development Financial Products”;
- » Information Letter of the Bank of Russia dated 16 December 2021 “On Recommendations on Consideration of ESG Factors and Sustainable Development Issues by the Board of Directors of a Public Joint-Stock Company”;
- » Information Letter of the Bank of Russia dated 28 December 2022 “On Recommendations for Financial Institutions to Consideration of ESG Factors and Sustainability Issues in Organizing Corporate Governance”;
- » Information Letter of the Bank of Russia dated 30 June 2023 “On Recommendations on the Development of Methodology and Assignment of ESG Ratings (Sustainability Ratings)”.



The policy of the Bank of Russia is quite soft and mainly aimed to enhance transparency and provide stakeholders with information necessary to assess companies' long-term sustainability.

### How to influence corporate governance with ESG in mind

In Russia, shareholders with ESG considerations in mind can potentially influence corporate governance through several mechanisms:

#### 1. Voting rights and proposals

Shareholders can exercise their voting rights at general meetings to approve or reject decisions related to ESG initiatives. They may propose agenda items or resolutions that focus on ESG issues, such as adopting environmental policies or improving labor practices.

#### 2. Engagement and dialogue

Active engagement with management allows shareholders to voice their concerns and expectations regarding ESG matters. This can happen through direct communication or investor meetings.

#### 3. Collaboration with institutional investors

Institutional investors, such as pension funds and asset managers, often have significant influence due to the size of their holdings. Shareholders can collaborate with these entities to amplify their impact on ESG-related corporate governance.

#### 4. Utilizing legal rights to information

Shareholders can invoke their legal rights to access information about the company's activities, since joint stock companies are obliged to provide shareholders with access to information and documents upon their request. These include, in particular<sup>1</sup>:

- » company's charter;
- » internal documents of the company approved by the general meeting of shareholders that regulate the activities of its bodies;
- » regulations on a branch or representative office;
- » annual accounting (financial) statements and the auditor's report on them;

- » minutes of general meetings;
- » lists of affiliated persons of the company;
- » notifications of the conclusion of shareholders' agreements sent to the company, as well as lists of persons who have entered into them;
- » court decisions and rulings on disputes related to the creation of the company, its management, or participation in it, as well as judicial acts on such disputes.

The company is obliged to provide access to certain information and documents only to shareholders holding a specific percentage of shares<sup>2</sup>. For example, shareholder owning at least 1% of the voting shares can ask for disclosure of information and documents concerning major transactions and/or transactions with interested parties, minutes of meetings of the board of directors and some other documents the company is obliged to keep. However, if the aforementioned documents and information are requested by a shareholder (shareholders) who owns less than 25% of the voting shares, the request must specify a legitimate business purpose<sup>3</sup>.

<sup>1</sup> Paragraph 1, Article 91 of the Law on JSC

<sup>2</sup> Paragraphs 2-3, 5-6, Article 91 of the Law on JSC

<sup>3</sup> Paragraph 4, Article 91 of the Law on JSC

**While the legal framework is still developing, shareholders have several tools at their disposal to leverage ESG considerations to influence corporate decisions. By exercising their rights to vote, engage in dialogue, and demand greater transparency, shareholders can promote sustainable and ethical business practices.**

Whether the ESG concerns can constitute a legitimate business purpose, remains an open question: according to paragraph 7 of Article 91 of the Law on JSC, a business purpose is understood as a shareholder's legitimate interest in obtaining information and documents that are objectively necessary and sufficient for the proper exercise of the shareholder's rights provided for by the Law on JSC. As stated in this provision of the Law on JSC, a business purpose may not be considered reasonable, in particular, if: 1) the company has information about actual circumstances indicating bad faith of the shareholder; 2) there is unreasonable interest in obtaining documents or information by the shareholder; 3) the shareholder is a competitor of the company or an affiliated person of a competitor and the document requested by the shareholder contains confidential information related to the competitive sphere and its distribution may harm the commercial interests of the company.

The absence in a shareholder's request to provide documents of an indication of the business purpose for which the document is requested, when such purpose is required by the Law on JSC, or if the said purpose is not reasonable, or if the composition and content of the requested documents clearly do not correspond to the purpose indicated in the request, all of this, as analysis of court practice has shown, may be grounds for the company to deny access to documents and information to its shareholder.

### **Potential risks and disputes in the ESG context**

As it is apparent, in Russia, it is not an easy task for the shareholder to be actively engaged in the promotion of ESG practices, and most of the options of such activism are available solely to

shareholders with significant part of the shares in their ownership.

Moreover, the future developments in this area may lead to potential risks and disputes. While we have not seen them in the Russian practice yet, there are some prominent issues to keep in mind while working on the local development of ESG practices:

#### **1. Conflict of interests**

There may be conflicts between shareholders seeking to prioritize ESG objectives and those focused on short-term financial gains. Such conflicts can lead to disputes over company strategies and resource allocation.

#### **2. Disclosure disputes**

Issues may arise over the adequacy and accuracy of ESG disclosures. Shareholders rely on transparent reporting to make informed decisions, and insufficient disclosure can lead to mistrust and legal action.

#### **3. Regulatory compliance risks**

Companies failing to comply with ESG-related regulations may face legal penalties, which can negatively affect shareholders. Conversely, overly stringent ESG policies might impact profitability, leading to shareholder discontent.

#### **4. Cultural and operational challenges**

Implementing ESG practices may require significant changes in company culture and operations. Resistance from management or other stakeholders can create friction and hinder progress. For instance, in industries with substantial environmental impacts, disagreements may

occur over the pace and extent of implementing sustainability measures. Shareholders advocating for rapid change may clash with management concerned about the costs and operational disruptions.

So why should it matter when it can be so complicated? For shareholders and companies alike, embracing ESG practices is not only about compliance but also about ensuring long-term success and competitiveness in the global market. For example, we see increased attention both from the regulator and from the market to environmental concerns in industries like mining and oil and gas. Sustainable practices in these industries may mitigate environmental risks that could lead to financial losses or reputational damage, which may consequently cause the drop of share prices.

While the legal framework is still developing, shareholders have several tools at their disposal to leverage ESG considerations to influence corporate decisions. By exercising their rights to vote, engage in dialogue, and demand greater transparency, shareholders can promote sustainable and ethical business practices. The potential risks and disputes arising from ESG practices underscore the need for clear regulations and open communication between shareholders and management. We hope that through the policies and recommendation of the Bank of Russia as well as growing education and awareness among fellow shareholders about the importance of ESG considerations for long-term investment returns and risk management, a broader support for integrating ESG principles into corporate governance can be built in Russia.

# ESG banking in Russia



**VASILY VYSOKOV**

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Dr Vasily Vysokov and his wife Tatiana Vysokova founded Center-invest Bank in 1992.

He heads the SME Committee and the ESG Banking Project Group of the Association of Banks of Russia.

Dr Vysokov is author of over 400 scientific works on the problems of economics, corporate management, securities market, transformation of the banking business, development of entrepreneurship.

The new reality and the constantly changing world force us to regularly check and transform existing global trends and stereotypes. Such an analysis is also required by the concept of ESG management, which has become popular in recent years and is based on the principles of environmental, social and government responsibility.

Under sanctions, the trajectory of ESG banking in Russia does not look very optimistic: we are not expected in European markets, we hope to enter Asian markets, which are most often regulated according to European patterns, and we implement ESG projects in the national taxonomy with maximum approximation to international standards. The experience of socially responsible banking in the economy of transformations accumulated in Russia – constant changes in the conditions of continuous crises – allows us to make sovereign ESG banking globally competitive and contribute to the best world practices.

Compliance with environmental, social and governance requirements should be treated with respect, enthusiasm, but without fanaticism. The trajectory of sovereign ESG banking expands the range of risks taken into account and the decision-making horizon due to innovation and requires creative approaches to financing ESG projects.

**ESG does not cancel profit.** Attempts to use ESG criteria instead of profit are useless. Profit has been and remains the main driving force and the main social responsibility of business:

- » without profit, there are no resources for solving socio-economic, environmental and climate problems;
- » profit cannot be obtained without satisfying the constantly changing needs of society;
- » in the “pursuit of profit” within the framework of current legislation,

business is already obliged to bear the costs of paying taxes, salaries of employees, their training, labor protection and environmental protection.

Unlike speculative banking, in **ESG banking profit must be:**

- » long-term (for the reproduction of all types of capital: financial, industrial, natural, intellectual, informational, human, social);
- » resistant to risks: market, regulatory, criminal, social;
- » creative to increase the efficiency and payback of ESG projects.

**ESG incompetence.** The irrepressible desire to implement the declared ESG principles leads to the accelerated implementation of rules that ignore objective laws:

- » no one has repealed the laws of conservation of mass and energy;
- » the weather forecast for tomorrow is usually more accurate than the climate forecast for 10 years ahead;
- » energy balances must use different energy sources taking into account seasonal, climatic factors, peak loads and reserves;
- » the transition to new technologies requires costs with a reasonable payback period and profitability;
- » innovation is not a scientific, not a technical, but always a social problem (“with the old technology – I am the boss, and with the new technology it is not a fact that I will remain the boss”);
- » any, even the most democratic *management has its own system administrator, beneficiary and responsible person.*

**Backwards advantages.** Russian banking was late in adopting ESG principles. Backwards advantages allowed us to reduce the risks and costs of a pioneer and use the experience of an in-

egrated approach to implementing new planned indicators and business accounting. Integrated ESG banking does not cancel the banking business, but:

**Comprehensive ESG banking** does not cancel the banking business, rather it:

- » expands the range of risks taken into account (due to environmental, social and management factors) and the horizon (not immediate, but long-term profit);
- » the success of implementing of ESG banking is not in the speed of changing regulatory requirements, but in a comprehensive approach that takes into account the relationship: taxonomy, structure and management functions, business model and strategy, ESG risk management and the formation of ESG reporting;
- » each of the specified subsystems has many alternatives from which the EGS banking puzzle is formed, covering at the algorithm level all levels and options of the taxonomies used, management functions and procedures, incentives, personal responsibility, and the procedure for resource distribution.

**Active promotion of sovereign ESG banking.** Center-invest Bank plays a significant role in the practical promotion of ESG banking in Russia, actively implementing and popularizing the principles of environmental, social and corporate governance.

The ESG banking model creates a sustainable ecosystem of relationships with clients and encourages all participants in this system to pursue a more responsible and social policy within the organization.

**Investing in sustainable development:** in 2019-2024, Center-invest Bank invested RUB 566.3bn in implementation of the Sustainable Development Goals and RUB 503.2bn in the National Projects. The bank also provides information on each client's contribution to the implementation of these goals and projects.

Since 2022, the bank has been using the *ESG risk assessment methodology when lending to small business entrepreneurs*. The methodology for assessing SME loans includes 25 parameters that take into account various aspects of doing business, an assessment of the level of environmental, social and corporate culture, industry risks and other factors.

The bank's customers with an ESG-A/B/C rating receive certificates of gratitude for responsible business conduct. In addition, borrowers have the opportunity to apply for an overdraft with a discount, which depends on the level of the ESG rating (the higher the rating, the higher the discount). In this way, the bank forms a system of ESG loyalty and involves entrepreneurs in the field of responsible business conduct. As of 01.10.2024, 5141 loans for a total of RUB 37.7 bn received a non-financial rating, which is 80% of the entire corporate loan portfolio.

There are different groups in the small business sector, for each of which ESG banking develops special products that take into account the specifics of lending risks.

**Lending to women entrepreneurs** implements the principle of gender equality and takes advantage of the lower risk appetite of women entrepreneurs. Since 2012, Center-invest Bank has introduced a special program to support women entrepreneurs, which as of July 1, 2024, was used by 2,042 clients for a total of RUB 5.6bn.

**Youth business** is designed to implement the creative ideas of the next generation within the framework of the current rules and barriers to entrepreneurship. To this end, the bank conducts training for aspiring entrepreneurs, provides benefits for settlement and cash services and lending to startups, organizes free consultations and mentoring based on its own Accelerator. As of July 1, 2024, 923 startup projects have been implemented for a total of RUB 1.2bn.

Center-invest Bank has been implementing a special program called *Social Responsibility* since 2017. This loan program is implemented with the aim of developing the business of social entrepreneurs in the fields of education, healthcare, culture and ecology. As of July 1, 2024, the bank has financed 188 projects under this program for a total of RUB 680.5 million.

Center-invest Bank is currently the only bank in Russia that provides *loans to homeowner's associations* for the repair of apartment buildings. As of July 1, 2024, the bank issued 259 loans for a total of RUB 556 million. Borrowers do not bear any additional costs. The main source of loan repayment is mandatory monthly contributions from homeowners for capital repairs of the building.

**Energy-efficient projects** are part of ESG. Center-invest Bank has been implementing an energy efficiency program since 2005, providing loans to businesses and individuals to implement modern technologies and measures to reduce energy consumption. During this time, the bank has financed 24,440 projects in the amount of RUB 23.2 bn. The environmental impact of this work is equal to an annual reduction in CO<sub>2</sub> emissions into the atmosphere by 274,514 tons.

In 2022, the bank launched the *Green Mortgage program*, which allows individuals and entrepreneurs to purchase real estate with an energy efficiency class of A and higher at reduced rates. Currently, 70% of all new loans are assessed in terms of greenhouse gas emissions and environmental impact. According to our methodology, the *carbon footprint of a mortgage* is the projected consumption of all energy resources of the purchased apartment in an apartment building, reflecting the total specific annual consumption of thermal energy for heating, ventilation, hot water supply, and common house needs.

Today, the bank assessed 3,248 mortgage loans for RUB 10.2 bn. The total carbon footprint assessment was 7,343 tons of CO<sub>2</sub> equivalent (46.6 kg CO<sub>2</sub>/m<sup>2</sup>/year), and the total amount of loans with assessment was 16.2% of the total volume of mortgage loans of the bank.

Since July 2023, the bank has launched a *carbon footprint assessment for the agricultural sector*: both for crop production and livestock farming. As of July 1, 2024, 1,686 loans have been assessed for a total of RUB 14.6 bn. The total area of land plots with the assessment reached 2,043 thousand hectares.

The bank's responsible attitude to society is reflected by the highest ESG rating ESG-AA level ESG-2, which was assigned to the bank in April 2024 by the analytical credit rating agency ACRA. The bank ranks 5th in Russia in terms of loans issued to SMEs and 11th in mortgage lending, participates in all government support projects. The bank's sustainable business model, digitalization of business processes, and customer focus allow the regional Center-invest Bank to successfully develop and strengthen its competitiveness in local and global markets.

# Case studies: sharing responsible business practices



# Rational water use: a necessity for sustainability



**EKATERINA  
KUZNETSOVA**

**CORPORATE AND  
GOVERNMENT AFFAIRS  
HEAD, JACOBS DOUWE  
EGBERTS RUS**

Ekaterina has 15 years of successful experience in corporate relations departments in the FMCG sector, focusing on work with government authorities in the sphere of the most regulated types of consumer products.

She is an expert in the field of sustainable development, international relations, and corporate communications.

Water is an essential resource for life. Beyond its critical biological functions, water is of great importance in sustaining ecosystems, supporting agricultural processes, and driving industrial activities. Every human endeavor – from food production to energy generation and sanitation – relies on water. This precious resource is the basis for numerous industries, including manufacturing, where it is essential in various processes such as cooling, cleaning, and in the direct production of goods. As global demand for water continues to rise, driven by factors like population growth and rapid industrialization, the strain on this resource is becoming even more apparent.

The importance of rational water use is becoming increasingly evident in the face of escalating challenges such as climate change and resource depletion. These pressures are prompting industries, particularly manufacturing, to reassess their approaches to water use. The demand for water from industries worldwide is expected to increase by 400 % in 2050 in view of the rapid growth in global industrialization.<sup>1</sup> The over-extraction of water from natural sources not only risks ecological damage but also threatens the long-term viability of industries that depend on it. Water scarcity already affects over two billion people globally,<sup>2</sup> highlighting the urgent need for sustainable water management practices. Thus, rational water use is not just an environmental imperative but also an economic necessity. For manufacturers, managing water resources efficiently can result in

significant cost savings, reduced environmental impact, and enhanced corporate sustainability. Incorporating water management into a company's Environmental, Social, and Governance (ESG) framework can provide long-term benefits, positioning businesses as responsible stewards of resources and contributors to global sustainability goals.

## **Water management: a strategic approach**

The scarcity of water resources has become one of the biggest global challenges of the 21st century. It underscores the need for solutions to address the Grand Challenges in this sector, which should include measures for efficient water use.<sup>3</sup> Manufacturers must prioritize water efficiency to mitigate their environmental footprint and ensure long-term operational sustainability.

By adopting innovative technologies such as closed-loop systems and water recycling, companies can minimize waste and enhance operational efficiency.<sup>4</sup> Furthermore, setting specific water-use targets and regularly monitoring progress against these goals facilitates continuous improvement and accountability.<sup>5</sup> In this way, by setting ambitious water-use goals and regularly tracking performance, manufacturers not only enhance their operational efficiency but also strengthen their reputation as environmentally responsible businesses.

<sup>1</sup> Connor R. et al. The United Nations World Water Development Report, 2016: Water and jobs. Executive summary.

<sup>2</sup> The United Nations World Water Development Report 2024.

<sup>3</sup> O. Saritas, L. Proskuryakova, E. Kzyngasheva. Water resources – an analysis of trends, weak signals and wild cards with implications for Russia, 2015.

<sup>4</sup> Morrison, J., et al. (2017). Innovative Water Management in Industry.

<sup>5</sup> Ramírez, J., et al. (2020). Water Use Efficiency in Manufacturing: A Review.

## The role of ESG frameworks in water management

ESG frameworks have become critical to business strategies, particularly in resource-intensive sectors like manufacturing. Rational water use not only conserves this valuable resource but also integrates seamlessly into ESG frameworks. Incorporating water management into ESG frameworks contributes to a company's long-term success by aligning it with global sustainability goals, such as the United Nations' Sustainable Development Goals (SDGs).

Manufacturers that integrate water management into their ESG frameworks are not only positioning themselves for regulatory compliance but also gaining a competitive advantage, particularly in the realm of customer engagement and retention. Investors, consumers, and other stakeholders are placing increasing emphasis on corporate sustainability, with many favoring businesses that demonstrate responsible resource management. A recent research indicates that a significant majority – approximately 76% – of consumers are disinclined to purchase products or services from companies perceived to neglect their environmental responsibilities, community welfare, or employee treatment.<sup>6</sup> These statistics underscore the critical importance of adopting robust ESG practices not only as a moral imperative but also as a strategic business approach that aligns corporate behavior with consumer values. By fostering positive relationships with stakeholders through responsible practices, organizations can enhance their reputational capital and, consequently, their market competitiveness.

As for water management, companies that prioritize rational water use are better equipped to navigate the growing pressures of water scarcity and resource competition, while also contributing positively to environmental and social outcomes. Water-related ESG metrics can include factors such as water efficiency, wastewater treatment, water risk assessments, and community engagement in water conservation efforts. By tracking these metrics, businesses can ensure they are meeting their water-related goals while also identifying areas for further improvement. In doing so, they contribute to the larger objective of achieving sustainable development, both within their operations and in the broader societal context.

## Water management in instant coffee manufacturing

At JDE we believe that access to clean water is an essential human right, and ensuring its availability for fundamental needs like washing, sanitation, and hygiene to globally recognized standards is a critical responsibility.

In 2023 JDE launched Water Stewardship Policy, which creates the foundation for our work to positively impact our water footprint, especially in water-stressed priority basins to create impact where it matters most. It reflects the close cooperation of our manufacturing leads, global center of excellence, and sustainability team, and describes our commitment to socially equitable, environmentally sustainable, and economically beneficial water usage. The Policy also includes other targets such as treating all our wastewater before being discharged by 2030 and ensuring employees at our manufacturing operations have access to safely managed water, sanitation and hygiene (WASH) facilities by 2030.

We are also developing wastewater training programs, which will empower our SHE (Safety, Health, and Environment) experts with the latest knowledge and skills.

At JDE we track our water progress on a monthly basis and share results via the E-report to manufacturing plant managers and senior leaders, with data available on a digital dashboard. At instant coffee manufacturing plants, water progress is primarily tracked through OPL3, a series of weekly reviews on performance in the plant with dedicated stakeholders. In 2023, we reduced our water usage by 4% versus our base year and managed a 1% reduction in water intensity. We achieved this by sharing best practices across our units, while working closely with both manufacturing and R&D and highlighting the importance of collaboration in achieving water sustainability goals.

While the production of instant coffee inherently involves a high-water intensity, the company is committed to reducing its water footprint. We understand that every liter of water saved not only reduces consumption but also minimizes the need for additional cleaning before and after use, thereby reducing water waste and mitigating environmental impact.

In JDE RU – at our Russian coffee plant located in the Leningrad region – we support global water initiatives and set an ambitious goal of reducing water consumption per ton of coffee to 45 tons by 2030. To achieve this goal, the company is actively working to improve the accounting system for water consumption at every stage of the production process, optimize water usage throughout operations, and maximize water reuse wherever possible. Significant progress has already been made as we managed to reduce water consumption from 77 m<sup>3</sup>/t in 2019 to 58 m<sup>3</sup>/t in 2024. Also, our treatment facilities purify water in 3 stages, allowing to achieve compliance with standards. This journey towards water sustainability is a testament to the company's commitment to responsible resource management and its dedication to creating a positive impact on the environment and communities it serves.

## Conclusion

The need for rational water use in the manufacturing sector is undeniable. As global demand for water continues to rise and resources become scarcer, manufacturers must adopt comprehensive water management strategies to ensure long-term sustainability. By integrating water management into ESG frameworks, companies can demonstrate their commitment to responsible practices while also contributing to global sustainability goals.

The progress demonstrated through reduced water usage and improved operational efficiency signifies a commitment to not only corporate responsibility but also to the broader global community affected by water scarcity. Collaborative efforts among stakeholders – from manufacturing leaders to sustainability teams – underscore the power of collective action in tackling this grand challenge.

As water stewardship is prioritized by industries, the emphasis on continuous improvement and technology integration will be key. By fostering a culture centered on water sustainability, businesses can enhance their resilience while contributing positively to the environment. Ultimately, responsible water management is not merely a regulatory obligation; it is a pathway to a sustainable future, ensuring that clean and safe water remains accessible for all, thus fostering a healthier planet.

<sup>6</sup> PWC survey, Beyond compliance: Consumers and employees want business to do more on ESG. 2021

# “Green steps”: how a company can reduce its carbon footprint



**IRINA GUSHCHINA**

**HEAD OF EXTERNAL COMMUNICATIONS, ASTRAZENECA RUSSIA&EURASIA**

Irina Gushchina has been working in PR and communications for over 20 years. She has been with AstraZeneca since May 2024 and is currently responsible for AstraZeneca’s external communications in Russia and Eurasia.

Irina is the winner of many professional awards, including Sabre Awards EMEA and IPRA Golden World Awards. She has been repeatedly included in the Top-Comm ratings (Association of Communication Directors and Corporate Media of Russia) and “Top 1000 Russian Managers” (Association of Managers and Publishing House “Kommersant”). She has been a long-time member of the jury for international professional awards such as the Digital Communication Awards (EU), Romanian PR Awards, and Silver Mercury.

Co-founder of the professional association Great Women in PR. Eurasia (founded in 2018).

Over the decades, AstraZeneca has been pushing the boundaries of science to find innovative solutions to some of the most serious diseases and deliver life-changing medicines to patients. While we have been transforming healthcare for billions of people, we recognize the strong connection between healthy people and a healthy planet. As a company with 27 production facilities and 4 R&D centers in different parts of the world, we see not only our responsibility, but also opportunities to address our environmental impact. Therefore, we are implementing a number of initiatives aimed at protecting nature, tackling the issue of climate change, and restoring local ecosystems. Not only have we adopted some of the key elements of the global ESG strategy in Russia, but also created unique local projects that address the local challenges and needs in the best way.

## **Corporate electric fleet reduces the carbon footprint**

Internal combustion engine vehicles are one of the main sources of environmental pollution. AstraZeneca works in more than 70 cities in Russia with the majority of employees traveling a lot. We can’t reduce a number of trips as direct interaction with partners and stakeholders is one of the most important components of the company’s business, which allows us to ensure uninterrupted access to life-saving therapies for our patients. But we may change the way we travel. Two years ago, AstraZeneca decided to convert the corporate fleet into an electric vehicle fleet and by this step to reduce the company’s carbon footprint without any damage to business processes.





## The active participation of employees in the environmental initiatives emphasizes the contribution everyone can make to preserving the health of our planet – our common home for future generations.

Since the project launch in 2022, AstraZeneca has become one of the first companies in Russia to successfully operate electric vehicles as a corporate fleet and ensure a smooth transition for employees.

Recognizing the impact which switching to an electric vehicle may have on the lifestyle, AstraZeneca has implemented several support measures to make it easier for employees to adapt to new types of cars, such as: additional payments for renting a warm car parking slot in winter, detailed instructions on how to operate the vehicle, compensation for the installation of 'home' charging stations, and an individual approach when issuing an electric car.

Today we have more than 100 electric cars in our fleet, which are used in Moscow, St. Petersburg, Voronezh, Krasnodar, Tula, Ryazan, Vladivostok, and other cities. In 2023, the project significantly reduced the company's carbon dioxide emissions in Russia compared to 2022. Regular reporting and analysis of the results help us better understand the environmental impact and plan the further steps.

### AZ Forest preserves the planet health

A global initiative to support the environment and its biodiversity is our AZ Forest program, which aims to plant 50 million trees by 2025. In partnership with non-profit organizations, AstraZeneca's employees volunteer to plant and care for trees in different regions of the Russian Federation on the annual basis. In 2024, AstraZeneca volunteers participated in planting 8,000 trees in the Odintsovo district of the Moscow Region. The planted trees will serve as homes and shelter for birds and animals in the future, contributing to the preservation of natural biodiversity.

The active participation of employees in the environmental initiatives emphasizes the contribution everyone can

make to preserving the health of our planet – our common home for future generations.

### Business travel policy supports reduction of CO2 emissions

Our goal in Russia is to reduce CO2 emissions from air travel by 50 per cent by 2030 (vs 2019). But this can only be achieved through awareness, when every employee realizes that their actions matter and help save the environment. The company recommends more environmentally friendly modes of transport to the employees when planning business trips, and a special internal dashboard reflects the environmental impact of each business unit.

### Paper-Free Project saves trees

In addition to the direct environmental impact of our production processes, we recognize that our operational processes also have a significant impact. This is why we are actively developing the Paper-Free project, which involves digitizing and automating various aspects of business operations.

To date, we have already managed to convert more than 80 per cent of our document flow with third parties into an online format, which has not only reduced the amount of paper and ink used, but also improved operational efficiency, accelerated administrative processes, and reduced the cost of courier services. At our production site, we took a broader view of the project and replaced printed versions of work procedures in classified production areas with a universal electronic tablet, which significantly simplified work processes, optimized time costs and contributed to a reduction in waste such as plastic and paper.

The company's digitalization process is constantly evolving. By May 2024, the share of electronic expense reports was over 97 per cent. By the end of the year, we intend to transfer the majority of

employees to HR electronic document management.

### Employees play the crucial role in environmental protection in Russia

Implementation of our sustainable development strategy requires the involvement of employees and managers at all levels. Thanks to the active involvement of our colleagues at AstraZeneca production facility in Kaluzhskiy Region, we have been able to identify additional opportunities to improve our environmental performance. For example, changes in the washing modes of production equipment allowed reducing water consumption by more than 4 times (about 76 per cent) per cycle, and optimization of sterilization cycles in the microbiological laboratory helped reduce electricity consumption by 2 times. And all this was possible without losing quality indicators and operation efficiency.

In offices, employees are also actively involved in environmental protection. Special boxes have been installed in common areas to collect cardboard, packaging made of composite materials, batteries and plastic caps. All of this is sent to a special disposal or recycling center for a new life. So, waste zone signs and garden furniture on the plant site are made from our own plastic waste.

### We stay ahead of the curve

As an innovative company that cares about the future of generations, we are strongly committed to our sustainability principles. In every region where we operate, we aim to reduce the impact of production and offset our residual footprint, strictly adhering to our global goal of becoming a carbon-negative company for all residual emissions by 2030.

# Sustainable development in the retail sector



**KSENIA  
DITYATKINA**

**DIRECTOR OF  
COMMUNICATIONS AND  
SOCIAL RESPONSIBILITY,  
AUCHAN RETAIL RUSSIA**

Ksenia Dityatkina joined the AUCHAN Retail Russia team in early 2022 as Head of Strategic Communications.

She is a regular speaker at Russian and international venues.

She has a university degree in environmental engineering and has completed more than a dozen advanced training programs in the field of sustainable development and climate change.

Commitment to the principles of sustainable development is an integral part of the work of a responsible business. This approach is at the heart of all the activities of AUCHAN Retail Russia. Every year more and more employees, customers and partners are involved in this process.

Within the framework of sustainable development, the company is working in the following priority areas: fulfilling social and community obligations, promoting healthy eating principles and combating food waste, reducing plastic pollution, and reducing carbon dioxide emissions.

Every year AUCHAN Retail Russia publishes a report on sustainable development with the main implemented projects. This article will focus on several projects.

## **Inclusion in AUCHAN Retail Russia**

AUCHAN Retail Russia has established itself in the market as a responsible employer which treats its employees with respect. Inclusivity is one of the parameters by which many candidates evaluate a potential or current employer. And AUCHAN can really be called inclusive. Here, the company does not follow trends, but sets them. Since its opening in 2002, AUCHAN Retail Russia has been hiring people with special needs. Today, the company employs about 800 people with disabilities, 550 of whom are hearing impaired.

Taking responsibility for employing hearing impaired employees, the company had to provide certain working conditions. For example, to provide everyone with a sign language interpreter

and smartwatches available at any time to receive notifications about work tasks.

As part of AUCHAN's social responsibility strategy, several areas aimed at the adaptation of colleagues with disabilities have been designed, supported and developed. In the spring of this year, together with the RSOSI "Joy" organization, we launched an employment project for people with mental disabilities and autism spectrum disorder. The AUCHAN Signaling hypermarket has become a test site for the project, now people with autism and other disabilities work in it. They perform a smaller percentage of the normal workload and have a shorter day. It is important to take into account the health characteristics of such employees, because they often find it harder to concentrate, they get tired faster, and it is more difficult to build communication.

In the first half of the year, about ten people with mental disabilities participated in the project. Individual internships with mentors were conducted for them, and we selected individual schedules. As a result, by August we managed to employ four people. That's how we realized that we are able to hire and adapt this category of people with disabilities.

For AUCHAN Retail Russia, inclusion is not only an interaction with an audience with disabilities, but also a broader concept. This is working with people who have any restrictions, temporary or permanent, working with teenagers and the older generation.

In the autumn of 2023, the company for the first time held a sports charity marathon "Together is easy!" The company's employees ran, walked, biked for com-

portable distances, totaling more than 30,000 km. Each kilometer was converted by the company's charitable foundation into 100 roubles. Non-sports participants answered questions on environmental topics, and also made their rouble contributions to the project's general piggy bank. In total, 2,300 volunteer employees took part in the marathon, and more than 3.5 million roubles were collected.

The funds raised during the charity marathon "Together is easy!" were aimed at rehabilitation and social adaptation of children and young people in difficult life situations. The Foundation has implemented 7 important inclusive projects in different cities of Russia.

For example, in Izhevsk, a potter's wheel, clay rolling, glaze, wax, molds and much more were purchased to launch the Ceramics and Candle Making workshops. Now 18 children with Down syndrome, autism, cerebral palsy and other diseases mold clay and make candles. Not only adult volunteers, but also ordinary schoolchildren come to help them. And in Novocherkassk, thanks to our help, a psychological relief room for 207 children with disabilities has started working in the Center. This is a room in which all conditions are created for correctional and developmental work. The room is equipped with modern equipment necessary for general developmental, correctional and psychological work with different categories of children.

### The Affordable Home Economics project

The Affordable Home Economics project is another large-scale project of the company, covering 34 cities of AUCHAN's presence in Russia, implemented by the AUCHAN Generation Charitable Foundation. The federal program was launched in 2022 and is aimed at social adaptation and integration of children and youth with disabilities. During this time, kitchens and household appliances appeared in 40 social institutions.

AUCHAN Retail Russia not only equips kitchens, the company's volunteers conduct seasonal cooking classes and regularly supply products of their own brands.

More than 1,000 children and teenagers from families in difficult situations have been trained under the Affordable Home Economics project. The total budget of the project for the entire period of implementation is more than 26.5 million roubles.

### Closed-loop production

Taking care of the environment, AUCHAN Retail Russia is working on sorting and transferring waste for recycling, turning it into secondary resources. In 2023, stores transferred 37,538.95 tons of recyclable materials for recycling: 33,536.85 tons of cardboard, 1,144.96 tons of plastic, 2,137.58 tons of polyethylene.

This year, AUCHAN Retail Russia launched the first project within the framework of the development of the principles of a closed-loop economy for the production of paper packaging bags. We started cooperating with the Linen Factory paper manufactory. At the first stage, for the production of a test batch of packaging, AUCHAN sent several tons of its own paper waste to the enterprise for processing.

According to the plant, more than 200,000 pieces of paper bags can be made from 10 tons of waste paper and about 180 trees can be saved.

This project will make the company's activities even more efficient in terms of resource consumption and respect for nature. If the test stage proves successful, the company will consider launching a similar project for the production of bags made of recycled polyethylene.

### Biodegradable disposable tableware

Bags made from recycled raw materials will be another addition to the eco-friendly assortment already presented in AUCHAN stores: biodegradable corn starch bags, reusable bags, craft bags, etc.

For example, AUCHAN's own brands include Actuel ECO compostable disposable tableware made from bagasse, a sugar cane fiber. It can be used for hot and cold food (-20°C to +100°C) and heated in a microwave oven. The tableware has a high density, does not allow moisture to pass for up to 4 hours and is resistant to deformation. There are "ECO line" and "Biodegradable product" indicators on the product labels. After use, dishes should be properly disposed of: buried in the ground at the cottage or placed in the home composter to avoid increasing greenhouse gases.

### The Green Generation project

Contributing to the preservation and restoration of the environment, in 2022 the company launched the Green Gen-

eration project – this is a huge reforestation effort and contribution to the fight against global warming. In March-June 2024, AUCHAN Retail Russia volunteers visited 8 regions. 360 volunteers planted 23,600 tree seedlings on an area of 4.7 hectares. On 3.4 hectares, maintenance work was carried out on trees that had been planted the year before. Over 1,000 volunteers took part in the project, 51,900 seedlings were planted, and costs amounted to 18.2 million roubles.

### Without a trace

AUCHAN Retail Russia adheres to the principles of healthy nutrition and the fight against food waste. The retailer has not only expanded the range of products that meet the principles of rational nutrition and include healthy lifestyle products (soy-free, sugar-free, gluten-free, etc.) to 700 items, but has also reduced product write-offs and waste.

Since August 2022, customers in all hypermarkets have had the opportunity to purchase high-quality products with a suitable shelf life at a discount of 30 to 60%. These include gastronomy, dairy products, bread, meat, poultry, packaged fish, vegetables and fruits and other products whose shelf life is coming to an end, but has not expired yet.

In 2023, thanks to the "Without Residue" program, it was possible to "save" more than 12.5 thousand tons of products and avoid almost 31.4 thousand tons of additional CO2 emissions generated during the disposal of expired products.



# How to build long-term prosperity for a company



**TATIANA  
GUSEVA**

**SHARED VALUE,  
SUSTAINABILITY AND  
COMMUNICATIONS  
MANAGER, CHIESI RUSSIA**

Tatiana Guseva has 12 years of experience in the pharmaceutical sector in HR, sustainability and communications.

She is a member of the Global D&I Committee of Chiesi Group.

In June 2024 Chiesi launched 2030 Strategic Goals. The company is committed to sustainable growth, which we define as achieving long-term success while positively impacting 4Ps: Patients, Planet, People and Prosperity.

In the article we would like to share a complex approach of the Strategy elaboration, and how sustainability currently reflects all areas of the company's activities (using supporting examples of the Russian affiliate). A special focus is on the Green projects (Planet) direction (a new reporting indicator in 2024 to reach the Net Zero status – carbon budget, green certificates purchasing – local experience from the market).

## Overall concept

At Chiesi, we embrace the principle of “Do good, do well, repeat”. This philosophy drives our commitment to creating business solutions that benefit society, achieve financial success, and reinvest in impactful initiatives. We exemplify this cycle of positive impact by analyzing the economic value we generate and distribute among our stakeholders.

Our four areas – Patients, Planet, People, and Prosperity – reflect this approach. By prioritizing solutions that benefit Patients, Planet, and People (“do good”), we achieve Prosperity (“do well”). We then reinvest our financial success into further research and development (“repeat”), demonstrating that doing well and doing good are not only compatible but also mutually reinforcing.

## Basic documents illustrating our sustainable efforts

In 2023 a new Sustainability Strategic Plan for 2023-2028 was presented

(Figure 1). The Plan serves as a roadmap to guide our actions, ensuring a lasting positive impact both within and beyond our company. By focusing on sustainability within our strategy, we view our organization through the eyes of our stakeholders, prioritizing their needs and placing them at the forefront of Chiesi's mission.

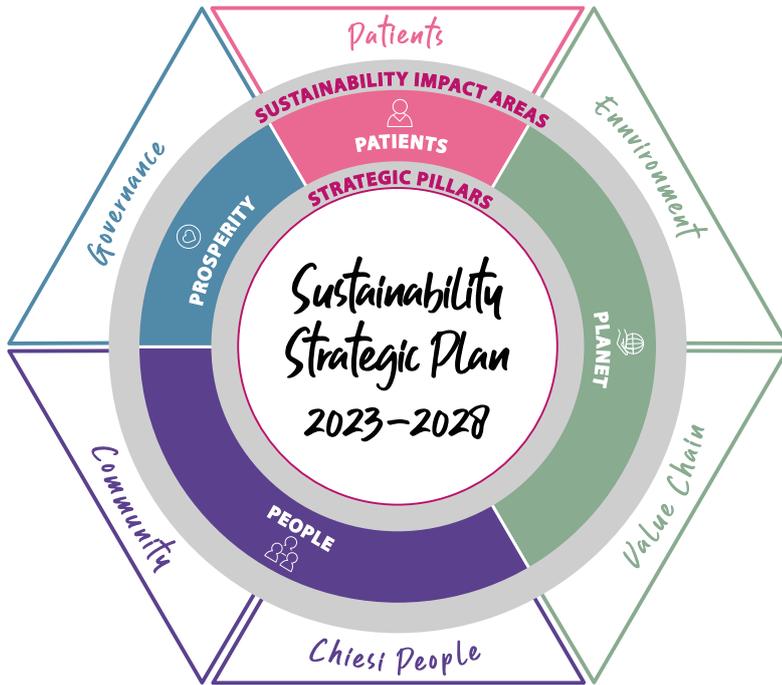
The Sustainability Report is produced annually and the 2023 Report was published in the summer of 2024 (the seventh Chiesi Group report). Regular collection of non-financial reports and publication in the Sustainability Report is our commitment to the external community and our partners. Our efforts are aimed at creating transparent and accessible information for all interested parties.

The reporting standard used for the Sustainability Report is the “GRI Sustainability Reporting Standards”. These standards are currently the most widely used and recognized internationally for non-financial reporting.

In the scope of collected data, sustainability performance presented:

- » compliance with laws and regulations;
- » energy intensity;
- » energy consumption within the organization;
- » water withdrawal, water discharge;
- » direct (Scope 1) GHG emissions;
- » energy indirect (Scope 2) GHG emissions;
- » other indirect (Scope 3) GHG emissions;
- » GHG emissions intensity;
- » waste generated;
- » waste diverted from disposal;
- » waste directed to disposal;
- » new suppliers that were screened using environmental criteria;

**Figure 1. Sustainability Strategic Plan for 2023–2028**



- » new suppliers that were screened using social criteria;
- » proportion of spending on local suppliers (%);
- » employee workforce;
- » work-related injuries;
- » average hours of training per year per employee;
- » percentage of employees receiving regular performance and career development reviews;
- » diversity of governance bodies and employees.

**How new Strategy reflects the company’s local activities**

Based on the Strategic Sustainability Plan and the development of Shared Value & Sustainability (a special department responsible for sustainability in the company), an updated classification of the area of operations was defined. Some examples of local initiatives are shown in Figure 2.

**Governance and ethics**

Presence in local associations (AEB, In-Pharma, AIPM) in order to collaborate effectively with colleagues from the pharmaceutical industry.

**People**

**Occupational health & safety:** employee awareness and training with a focus on compliance with local legislation.

**“People care” wellbeing program:** ensuring that Chiesi is a positive and healthy workplace based on work-life harmony, where all employees feel comfortable expressing themselves, their talents and giving their best.

**Diversity & inclusion:** creating an inclusive culture where everyone feels comfortable and can express themselves and their talents.

**Affinity Groups** as a tool for developing a culture of diversity. They are voluntary groups of employees who come together under the umbrella of a common theme to discuss needs, create visibility and generate space for discussions, ideas and specific solutions for Chiesi. At local level, an Affinity Group “Harmony” (focusing on work-life balance and inner harmony) for all, with 3 areas (sports, nature, hobbies) was created, supporting employees in their needs.

**Community**

**“We act”:** an extensive program designed to raise awareness and engage all employees to develop a more conscious behavior to make a positive impact on society and the environment. Locally all employees are involved in the “We act” program – the main activity started last year in Russia – greening of hospital territories (planting trees, flowers, landscaping) in different Russian cities. The core idea of the initiative is to take care of nature, focus on our patients, have a positive impact on local communities.

Also as part of our “We act” activities, we hold charitable seasonal campaigns around September 1 and New Year’s Eve, reaching out to low-income families and children with rare diseases (through a charitable foundation).

**Environment**

**Better building:** the project aims to improve the sustainable functioning of all company buildings (offices, laboratories, production and storage areas, etc.) in terms of human health and well-being: ease of movement, waste management, energy and water consumption.

Purchase of green certificates to reduce carbon footprint.

**Value chain**

Localization of a sustainability questionnaire for key suppliers in the due diligence process.

**Figure 2. Chiesi’s examples of local initiatives**



## Patients

Health equity is defined as achieving the highest level of health for all people.

## Focusing on green projects

From 2024 onwards, each affiliate is given a new target – a carbon budget.

The carbon budget is a one-year cumulative CO<sub>2</sub> emissions target. It represents the amount of greenhouse gas emissions that must not be exceeded during the year in order to reach zero emissions by 2035.

The target is based on calculations from previous years. It includes Scope 1 (Mobile emissions) and Scope 2 (Purchased electricity (market based)).

Setting a new target has prompted us to improve the processes for providing accurate data, namely: to finalize the con-

figuration of the submission of waybills and automatic calculation of CO<sub>2</sub> emissions for the corporate fleet, as well as to explore the issue of purchasing green certificates.

Green certificates (or certificates of origin of electricity) confirm the production of electricity from generating facilities operating on the basis of renewable energy sources (RES) – wind, solar, water, etc. The certificates are applied separately and independently from the electricity for which they were issued. All operations with certificates are recorded in a special register<sup>1</sup>.

After the suspension of the I-REC international certification system in the Russian market, companies experienced some difficulties with purchasing green certificates and finding a new provider.

In 2024, we met with Carbon Zero and are considering purchasing green cer-

tificates by the end of the year to help achieve the carbon budget target.

The Russian voluntary Carbon Zero standard was developed in compliance with international principles and recommendations and is the only green certificate format available in Russia today. Its application allows responsible electricity consumers in Russia to offset their carbon footprint and support the development of renewable energy sources with reliable and proven tools.

It is worth noting that green energy in the world has a fantastic growth rate of 20% per year<sup>2</sup>. We can only hope that the market for green certificates will expand in the near future.



<sup>1</sup> <https://carbonzero.ru/>

<sup>2</sup> <https://www.eprussia.ru/epr/463-464/6837318.htm>

# ESG in an importing company: tools for everyday life



**LEONID SHISHKOV**

PR MANAGER, HERINCKX TRADE SOLUTIONS

Leonid Shishkov joined Herinckx Trade Solutions as a specialist in advertising and public relations in 2023.

Throughout his career, he has worked in several PR agencies.

Leonid graduated from the Russian State University for the Humanities (RSUH) with a degree in advertising and PR. At the moment, he continues his studies at RSHU, specializing in marketing management.

In today's world, the concept of sustainable development and ESG principles (environmental, social and governance factors) play a key role in the import sector. In the context of globalization and rapidly growing demands from consumers and companies, the implementation of ESG practices becomes essential to ensure competitiveness and long-term sustainability. Over the last few years, the approach of Russian companies has changed, and they have started to actively implement ESG requirements in their supply chains.

## The importance of ESG for the import sector

The import sector currently faces a number of challenges:

- » prompt delivery times;
- » the need to comply with environmental regulations;
- » transparency in supply chains;

» most suppliers do not see the value in undergoing an ESG assessment.

Every manufacturer wants to know how goods are delivered, whether storage and transport standards are met, as supply chains have become noticeably longer. This forces companies to rethink their internal processes and interactions with partners.

By applying ESG principles, companies not only minimize compliance risks, but also create a positive image, which helps increase their customer base and the loyalty of existing customers.

## ESG challenges

A key challenge faced by importing companies is the lack of supply chain transparency. It is difficult for companies to track how goods are produced, what labour conditions workers are subjected to and what environmental



The concept of sustainable development and ESG principles play a key role in the import sector. In the context of globalization and rapidly growing demands from consumers and companies, the implementation of ESG practices becomes essential to ensure competitiveness and long-term sustainability.



standards are met. All of these poses risks to a company's reputation as a market player that strives to provide the best possible customer service to its partners, ensuring its financial stability.

### The example of Herinckx Trade Solutions

Herinckx Trade Solutions actively integrates ESG principles into its operations. The example of our practice highlights several key tools that help us integrate sustainability into our daily processes.

**Supplier evaluation:** We have developed a system for evaluating suppliers against ESG criteria. This includes an analysis of environmental responsibility, labour conditions and respect for human rights. This approach allows us to work only with partners who share our values. All partners are carefully screened, and the Herinckx Trade Solutions team refines its supplier selection approaches when the current market environment requires it.

**Sustainable logistics solutions:** We actively seek opportunities to optimize our logistics processes to reduce our carbon footprint. This includes the use of alternative modes of transport and the adoption of technologies to im-

prove energy efficiency. This approach also allows us to optimize time performance.

**Employee training:** internal sustainability trainings help our employees to recognize the importance of ESG approaches and implement them in their daily work. We regularly organize seminars and workshops to raise awareness of social and environmental issues. Every employee of Herinckx Trade Solutions who is directly involved with the ESG approach in his/her work is constantly improving his/her skills and passing on the knowledge and skills he/she has already gained to colleagues in related departments.

**Transparent reporting:** We publish regular reports on our sustainability activities, which allows our customers and partners to see our achievements and goals. This builds trust and strengthens business relationships. Openness and honesty to our business partners are factors without which it is difficult to imagine the working life of modern corporations.

**Social initiatives:** Herinckx Trade Solutions is actively involved in social projects, supporting local communities and initiating programmes to improve the quality of life of employees in the supplier countries. Many companies are

just beginning their involvement in the social life of the community, and we hope that participation in social projects will become a trend for companies present in the Russian market.

**DIFOTAL (Delivery in Full, On Time, As Intended):** We have implemented DIFOTAL to improve the efficiency of our supply chain management. This tool allows us to track the timeliness and completeness of deliveries, which not only improves our operational efficiency, but also helps us comply with environmental and social standards. The system provides transparency at all stages, allowing us to respond quickly to potential problems and minimize risks.

### Conclusion

Nowadays ESG principles are not just a trend, but a necessity for successful business in the modern world. The experience of HTS Rus shows that integration of sustainable development into the company's processes can lead to significant benefits for both the company and society as a whole. We are confident that following ESG principles will become the basis for shaping a more responsible and sustainable future.

# How the world is addressing the growing amount of waste from pharmaceutical products



**GALINA  
VOLODINA**

**HEAD OF THE LABOR  
PROTECTION, SAFETY &  
ECOLOGY DEPARTMENT,  
NIZHPHARM GROUP**

Galina Volodina has been working in NIZHPHARM Group for over 20 years, having risen from the Head of the Labor Protection Department to the Head of the Labor Protection, Safety & Ecology Department.

She made a significant contribution to ensuring consistently high standards in the field of labor protection and ecology in the company, and to the development of occupational safety culture. The initiatives implemented with her support are aimed at resource saving and reducing adverse environmental impact from the activities of the NIZHPHARM Group production site in Nizhny Novgorod.

An increasing amount of waste is a global issue. The materials, fractions, and trash generated by the manufacturing of pharmaceuticals are one of its subcategories. Russia is not an exception to the global search for solutions. Furthermore, there are pharmaceutical businesses that have effectively pursued the course of limiting environmental impact.

## **Exponential growth of waste**

As classified by the World Health Organization (WHO), pharmaceutical waste is waste that contains medicines. For instance, goods tainted with or containing drugs, as well as medicines that are outdated or unnecessary. About 85% of

all medical and sanitary waste, according to the WHO, is non-hazardous material similar to regular household garbage. The remaining 15% are categorized as hazardous materials, which can include chemical, radioactive, or pathogenic compounds<sup>1</sup>.

It should be highlighted that different nations around the globe have different approaches to managing pharmaceutical waste and different ways of addressing the issue overall. But it exists in all countries, in one form or another. For instance, a German study discovered that each year, almost 16,000 tons of medicines are disposed of from public healthcare facilities; 60-80% of these medicines are typically thrown out with regular household waste<sup>2</sup>.



**It should be highlighted that different nations around the globe have different approaches to managing pharmaceutical waste and different ways of addressing the issue overall. But it exists in all countries, in one form or another.**

<sup>1</sup> <https://www.who.int/ru/news-room/fact-sheets/detail/health-care-waste>

<sup>2</sup> <https://iris.who.int/bitstream/handle/10665/254735/public-health-panorama0301-133-139-rus.pdf>



The experts also point out that these behaviors have very detrimental economic effects in addition to harming the ecosystem. For instance, some estimates place the annual cost of eliminating damage from medical waste in the UK between 100 and 300 million pounds for the National Health Service<sup>3</sup>.

It is clear that rising drug consumption, which is further encouraged by variables like population aging, the rise in chronic illness, and the development of novel medicines, is directly related to growing pharmaceutical pollution. Suffice it to say that there are currently roughly 4,000 active medicines registered globally.

The majority of waste is produced during the pharmaceutical production

process, nevertheless, and pharmaceutical businesses also contribute to environmental pollution through wastewater and air emissions from their operations. This kind of pollution is increasing because of the thousands of pharmaceutical plants that are in operation worldwide.

The manufacturing of pharmaceuticals produces non-specific waste, such as scrap metal, plastic, waste paper, etc., just like any other industrial operation. For instance, according to WHO experts, the pharmaceutical business generates over 300 million tons of plastic trash yearly, of which half is single-use items<sup>4</sup>.

The share of pharmaceutical production in the total volume of industrial waste is estimated at 1-3%. Regarding

the latter, by the end of 2023, Russian industry had produced 9.3 billion tons of garbage, which was 3% more than in 2022<sup>5</sup>. The amount that Russian companies spent on waste management was 440.3 billion roubles, a 34% increase over the previous year. Nonetheless, throughout the course of the year, the volume of landfill waste dropped by a third to 1.6 billion tons<sup>6</sup>.

The amount of industrial trash produced has been increasing annually, according to experts. The only significant variation in the last ten years was in 2020, when the amount decreased by 10.3 percent to 6.96 billion tons<sup>7</sup>. This was ascribed to the coronavirus pandemic-related slowdown in all industrial activity.

<sup>3</sup> <https://iris.who.int/bitstream/handle/10665/254735/public-health-panorama0301-133-139-rus.pdf>

<sup>4</sup> <https://gxpnews.net/2024/04/ekologicheskaya-bezotvetstvennost-problemy-utilizaczii-farmaceuticheskikh-otvodov/>

<sup>5</sup> <https://www.vedomosti.ru/esg/ecology/articles/2024/08/23/1057624-othodi-rossiiskoi-promishlennosti-previsili-istoricheskii-maksimum>

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

## Looking for solutions and answers

Environmentalists worldwide have observed a rise in the chemical components of pharmaceutical waste found in the environment. Pharmaceutical substances have been found in trace amounts in the surface waters of numerous countries according to recent investigations.

Pharmaceutical waste poses a threat to the environment because it constantly seeps and persists in the environment, and can have detrimental effects on wildlife, especially aquatic life, even at low concentrations. It can also have synergistic and cumulative effects when it comes into contact with other pharmaceutical substances.

Members of the international community are becoming more and more interested in this issue. The environmental impact of active pharmaceutical ingredients has been classified by the European Environment Agency (EEA) as a developing issue that has to be addressed. The most recent global report from the EEA details the outcomes of environmental impact testing for 713 drugs. It was discovered that 631 pharmaceutical substances had concentrations higher than the maximum allowable limits<sup>8</sup>.

The first worldwide comprehensive Guidelines on the Safe Management of Healthcare Waste were created not too long ago by the World Health Organization<sup>9</sup>. Additionally, on September 3, 2024, the World Health Organization released guidelines on antibiotic contamination of the environment during production in pharmaceutical plants for the first time<sup>10</sup>.

Policies are being created in the member states of the European Union aimed to lessen the harmful effects of drugs on the environment.

These include initiatives to create drugs that are less hazardous to the environment, enhance wastewater treatment systems to lower the amount of leftover drugs in ground and surface water<sup>11</sup>, and implement educational projects focused on shifting societal norms and expectations toward the more responsible use of medicines.

## Insights from accumulated mistakes

The possible health dangers associated with pharmaceutical waste-related environmental contamination have led to the adoption of a variety of special laws and regulations in various nations.

In Russia, the management of such waste is regulated at several levels, including federal, regional and municipal. The Ministry of Natural Resources and Environment, Federal Service for Supervision of Natural Resources, and Federal Service for the Oversight of Consumer Protection and Welfare of the Russian Federation are the government regulatory bodies in this field.

The latest amendments to the legislation concerning this area were made on August 8, 2024 by Federal Law No. 306-FZ, effective as of July 1, 2025. The purpose of this paper is to close the legal loophole in the medical waste management relationship regulations.

### Minimizing waste

A responsible business, including a pharmaceutical company, should prioritize minimizing the waste produced during the manufacturing process, recycling different kinds of waste (such as plastic, metal, and waste paper), and keeping an eye on how businesses are affecting the environment.

NIZHPHARM Group may be cited as an example of this approach. The industrial facilities of NIZHPHARM Group, located in Nizhny Novgorod and Obninsk, effectively implement environmental management systems that comply with the ISO 14001 international standard. NIZHPHARM Group contributes positively to the preservation of the earth, its climate, livable conditions, pure air and river water, by adhering to environmental regulations.

To avoid going above the set environmental impact limits, the Group's businesses regularly track pollutant emissions into the atmosphere and study atmospheric air in the sanitary protection zone. In order to comply with contemporary green standards, businesses are gradually replacing mercury lamps

with LED lamps, reducing the amount of treated water and disinfectants they use, and replacing their freon R-22 refrigeration equipment with safer refrigerant.

Over half of the waste that is generated during the manufacturing process is recycled and used to create useful secondary raw materials. For instance, rather than being buried, blister packaging waste – cuttings from tablet packaging – is sent for recycling. Blister cuttings decay in a landfill for over a century, and after recycling with special equipment, the aluminum and plastic may be reused.

The overall volume of waste disposed of at the Group's Obninsk production site stayed at 2022 levels in 2023 despite a 32% increase in production volumes. And the Nizhny Novgorod production facility saw a 22% reduction in non-hazardous waste generation.

The effluent produced at the site in Nizhny Novgorod is treated in multiple stages at its own local treatment facilities prior to being released into the city's municipal treatment facilities and sewerage system. This results in an average 65% reduction in the pollutant level of industrial effluent.

Production waste water at the Obninsk facility is treated in three steps until it satisfies regulations and then released to the common collector. The facility uses a three-stage filtering system to purify the air it releases into the atmosphere, reaching a purification rate of more than 99%.

According to NIZHPHARM's 2024 Barometer of Russians' Attitude to Their Health study, 31% of Russian medicine purchasers said it matters whether the pharmaceutical business conducts environmental events and actions.

<sup>8</sup> <https://iris.who.int/bitstream/handle/10665/254735/public-health-panorama0301-133-139-rus.pdf>

<sup>9</sup> <https://www.who.int/ru/news-room/fact-sheets/detail/health-care-waste>

<sup>10</sup> <https://www.who.int/ru/news/item/03-09-2024-new-global-guidance-aims-to-curb-antibiotic-pollution-from-manufacturing>

<sup>11</sup> <https://iris.who.int/bitstream/handle/10665/254735/public-health-panorama0301-133-139-rus.pdf>

Part

4

# Expanding ESG values



40

# Sustainable shopping in Russia: is it a thing of the past or a growing trend?



**OKSANA  
KOSTIV**

HEAD OF SUSTAINABLE  
DEVELOPMENT, LAMODA

Oksana Kostiv joined Lamoda in 2019, specializing in sustainability, ethics in retail and community support, including corporate volunteering.

She has gained experience working for large international and domestic alcoholic beverage companies since 2013. Thanks to her practical experience, Oksana knows the challenges brands and companies can face when implementing sustainability principles, and has the knowledge and experience to help them overcome these challenges.

Oksana has been recognized for her ESG work by the International Alliance for Responsible Drinking, Moscow Automobile and Road University and the Ministry of Education and Science of the Russian Federation. In 2023, she was ranked among the top 25 sustainability directors in Russia.

In early 2024 Lamoda, a fashion and lifestyle retailer, conducted a large-scale study on customers' sustainability preferences. The study, based on a sample of 3,053 customers, focused on exploring attitudes towards sustainable products, potential hesitations that might prevent a purchase and the criteria respondents relied on when choosing products that contribute to a better world around us. It also revealed what social and environmental issues concern the customers the most and who, in their opinion, should be responsible for solving them.

Lamoda has been conducting studies regarding the demand for more sustainable products for several years in a row. In 2020, in a similar study, the main block that prevented customers from choosing sustainable products was the price: the "too expensive" factor was chosen by 19% of respondents.

According to the current study, the importance of price has decreased to 14%, and 25% of respondents are even willing to pay more for sustainable products.

However, it is a bit premature to expect especial generosity from buyers. On average, respondents in Russia are willing to "pay premium" for sustainability +14% to the price of a product: +15% for beauty and cosmetics; +15% for shoes; +14% for clothing; +13% for accessories.

**How do buyers feel about sustainability in 2024, and how do they learn about products that can make a difference?**

84% of respondents have a positive attitude towards eco-friendly, ethical, inclusive and charitable products. Two thirds of customers plan to continue choosing more sustainable products.

To find products that contribute to a better world among others, 56% of respondents study labels and contents. At the same time, 33% of respondents pay attention to eco-labels. Less than a quarter of customers turn to specialized channels and blogs.

More than a half of the respondents are already taking steps to enhance their sustainable lifestyle. 61% of the respondents regularly repair clothes and shoes, 58% do not take plastic or paper bags in stores and use their own reusable bags, 41% support recycling initiatives, and 41% choose products featuring eco-friendly packaging or without packaging.

At the same time, the study shows that 36% of respondents note mistrust towards brands and manufacturers that boast of sustainable goods among their concerns. 22% do not know how to correctly choose products that contribute to a better world. The same number of respondents does not understand how to identify a sustainable product based on its contents or a production technology.

**The most significant factors in choosing more sustainable goods (in descending order) are:**

- » product safety for the customer;
- » use of more environmentally friendly materials (recycled, organic, natural, etc.);
- » an environmentally friendly production process (saving water, energy; wastewater treatment; zero waste production, etc.);
- » cruelty free initiatives and products made without testing on animals;
- » a newly purchased item fits into the customer's existing lifestyle choices.



**84% of respondents have a positive attitude towards eco-friendly, ethical, inclusive and charitable products. Two thirds of customers plan to continue choosing more sustainable products. To find products that contribute to a better world among others, 56% of respondents study labels and contents.**

**The desire to be more conscious and make the world a better place is the main motivation for purchasing more sustainable products:**

- » 56% try to be more conscious when buying clothes, shoes, accessories, beauty products;
- » 54% feel that they can contribute to environment and communities by supporting a manufacturer of more sustainable goods;
- » 30% like to be involved in global changes and doing the right thing;
- » 28% believe that such products are produced with higher quality standards;
- » 22% are concerned about the impact of the fashion industry on the planet, but do not want to give up a stylish wardrobe, so they choose

brands that are more transparent about their attitudes.

**What social and environmental issues worry customers:**

- » air pollution;
- » water pollution;
- » protecting children from violence;
- » cancer;
- » garbage dumps.

**According to buyers, who is responsible for improving the situation in the field of environment and social well-being:**

- » government (83%);
- » product manufacturers, brands (55%);
- » them personally (52%);

- » non-profit organizations, charities (34%);
- » retailers (online and offline stores) 32%.

Lamoda has been developing the ESG agenda since 2012. In 2020, the company became the first major e-commerce platform in the fashion and lifestyle segment in Russia and the CIS to launch its “green shelf”. The Lamoda Planet section contains more environmentally friendly, ethical, inclusive and charitable goods. All goods related to the Lamoda Planet are checked for compliance with sustainability criteria. The section shows confident positive dynamics: net merchandise value (NMV) skyrocketed from 2% in 2021 to 25% in 2024; customer engagement increased from 12% in 2021 to 55% in 2024.

In 2022, the Lamoda Planet project won a bronze medal in the Effie award (nomination “Positive change. Environmental protection and sustainable development”).

In 2023, the Lamoda Planet was included in the “Collection of Best Practices in Environmental Education” by ANO “Center for Assistance to Environmental Initiatives” with the support of the “Donors Forum”, the Federation Council, the Ministry of Economic Development, the Ministry of Culture, the Russian Union of Industrialists and Entrepreneurs, ANO “National Priorities”. The Lamoda Planet is the unique example in the “Conscious Consumption” section in the “Collection”.

Lamoda’s vision in the ESG agenda is “making the world a better place with your wardrobe”. In addition to opinion studies, Lamoda annually publishes materials on trends in sustainable fashion. The retailer actively involves its partners in the sustainable development agenda and is open to cooperation with AEB member companies.



# How ESG boosts employee engagement, prevents burnout and attracts top talent



**DARIA  
FEDOROVA**

**CEO OF THE "PONIMAU"  
CORPORATE WELL-BEING  
PLATFORM**

Daria Fedorova has been a co-founder (since 2017) and CEO (since 2023) of the "PONIMAU" corporate well-being platform. She is an ACSTH ICF coach.

Daria has worked for more than 15 years in various positions in product development and marketing in the insurance market in such companies as ERGO, Ingosstrakh, ACE, Russki Standard Insurance.

Daria graduated from the Faculty of Mathematics and Mechanics of the St. Petersburg State University. She has a professional retraining in marketing at the Sociological Institute of the Russian Academy of Sciences, as well as a Fellow, Life Management Institute (FLMI) degree in the field of management of insurance organizations from the Life Office Management Association (LOMA), USA.

ESG is not just a buzzword, but a real business philosophy combining environmental, social and management aspects. This system not only inspires employees to new achievements, but also ensures financial growth and care for the environment. The research of the "Great Place To Work" shows that in companies with an active ESG agenda, employees are twice as likely to be proud of their place of work. New management principles create an atmosphere in which everyone enjoys being employed.

## Motivation of employees

Applying social ESG principles includes taking care of employee well-being, which helps to prevent burnout and other problems. Solving such problems or preventing their occurrence has a direct impact on the success and stability of the business.

According to the Gallup model, employee well-being includes five elements: professional, social, financial, physical and living environment. Many modern companies work to satisfy each of the five points: they arrange recreation areas in offices, provide employees with programs to keep mental health in check, help to maintain a balance between work and personal life.

Moreover, ESG programs provide professional retraining of employees to avoid dismissal in case of automation of functions. BrandUp&YounGo undertook a study among companies using ESG principles. It emerged that social events increased employee loyalty (84%) and their engagement (70%). Conducting various workshops, business games, foresights ensures the sustainable development of the company.



**Applying social ESG principles includes taking care of employee well-being, which helps to prevent burnout and other problems. Solving such problems or preventing their occurrence has a direct impact on the success and stability of the business.**



### Comfort mental feel

The ESG agenda follows the rule “The last, but not the least”. This rule provides for monitoring the psychological state of a person at work. Towards this tests are conducted to determine the level of emotional state. In order to keep a good level of relationships within the team, it is possible to hold, for example, corporate lunches, invite coaches. To improve working conditions, it is recommended to introduce flexible benefits and flexible work schedules.

There are also programs that maintain the physical health of employees. Covering the cost of a gym, consultations with healthy lifestyle specialists, corporate competitions – all of these things can be used to ensure the health of employees.

### Increase in the number of young professionals

In 2023, the interest of youth in companies with ESG principles increased, and this trend is kept. This is reported by the research data of the analytical center NAFS and Ingosstrakh. ESG helps to attract talents for effective business development.

For this a sustainable development strategy has been developed. The concept explains how to achieve the goal together and helps each employee feel their importance. To create a comfortable corporate environment, changes should be implemented gradually. For example, a goal tree will help with this. Therefore, employees will know their primary tasks and achieve the results step by step. ESG also focuses on the work environment. This factor is also

decisive when young people choose a place to work. Companies renovate their premises, plant greenery, and arrange areas for recreation and sports. A favorable atmosphere in the office ensures the comfort and productivity of team members.

Companies with strong ESG positions are often seen as more attractive employers. This can help attract new talent, especially among youth and professionals who are looking for job in socially or environmentally responsible organizations.

An active social and environmental position is useful for business for sustainable development. As noted in the BrandUp&YounGo research, ESG ensures employee satisfaction with their current place of work and helps the business to operate more efficiently.

# How to influence employee well-being in the area of occupational safety?



**EKATERINA  
ALEKSANDROVA**

**SENIOR CONSULTANT,  
MANPOWER**

Ekaterina Aleksandrova is a certified consultant in international career consulting technology “Talent Solutions” (“Right Management”).

She is a psychologist, scientist, methodologist, mentor of career consultants. Ekaterina is postgraduate of Lomonosov Moscow State University, specializing in Labor Psychology, Engineering Psychology, and Cognitive Ergonomics.

She has work experience in career counseling, assessment and adult education since 2009. Her research interests focus on the psychological readiness of adults to change.

Ekaterina joined Manpower in 2012, providing methodological support and HR projects delivery for well-known local and international companies.

Employers are getting increasingly concerned with the well-being of their employees these days. Teams’ distribution has grown more challenging when tackling routine HR activities in the current environment of increasing external stress, unpredictability, and work complexity. One of the main priorities in this field is employees’ safe workplace. The hygienic aspects of employee motivation are becoming less and less appealing to workers and less effective as desired by employers.

Businesses invest a lot of money maintaining their labor protection systems. More emphasis is being placed on “hard” components, such as planning safety seminars to expand and update knowledge, ensuring that instructions are followed. Physical health (e.g. ongoing employee health monitoring, targeted voluntary health insurance packages, “health weeks” activities aimed at promoting healthy habits and raising awareness of employees’ health) and comfortable working environment (e.g. noise-absorbing environment, ergonomic workplace, recreation rooms, canteens, gyms, household services in the workplace) are related to these activities as key components of well-being programs.

The Frederick Herzberg theory of motivation, on the other hand, shows that traditional methods of ensuring workers’ safety — such as direct physical and health monitoring and safe workplace — are no longer sufficient. Moreover, corporate policies, instructions, supervision, work conditions factors belong to the

so-called “KITA” factors (or hygienic). This term refers to the practice of rewarding employees for completing tasks (usually financially or threatening to make employees do something (Herzberg, 2003)<sup>1</sup>). This incentive definitely stimulates an employee, but only to seek the next monetary incentive. Therefore, according to Herzberg, “KITA” factors do not act as motivational factors — they should be provided constantly in order to add motivation, as they are stimulating factors. So, it is one of the answers on the situation when even an ideal system in terms of hygienic factors could face a problem of the “human factor”. Herzberg believes that true motivation comes within the person itself and does not need external stimulation. The optimal combination for a company to aim for could therefore be “*High hygiene + high motivation*”.

How can employers influence the “human factor” in this way through well-being programs? According to Herzberg, people seek the satisfaction of higher psychological needs that are connected with *success, recognition, responsibility, progress and the type of work itself*. This seems corresponding to main elements of well-being programs as psychological health (e.g. collective activities and trainings on cohesion, smart communication, conflict behavior, emotional intelligence development, stress management practices, psychological support programs) and *Professional/Career growth* (e.g. opportunities for learning and personal growth in terms of hard and soft skills with a personalized trajectory).

<sup>1</sup> Herzberg, F. (2003). One more time: How do you motivate employees? Harvard Business Review (January), P. 87-96.



In this regard, one of the best practices our team implements for manufacturing and logistics leading companies are seminars, combining labor safety and psychology. During seminars our team consistently discusses certain safety rules' causes with employees, what mechanisms of individuals' psychology are behind this or that behavior and its dynamics. This allows each participant to look at himself/herself personally from a new point of view, understand hidden reasons and mechanisms of their own behavior, cognitive biases and accordingly — take a more conscious approach for work-rest balance, safety instructions execution, stress management practices.

We also conduct these kinds of seminars and master classes for managers separately. They are focused not only on the causes of employees' cognitive biases and other psychological features, but also on jointly developed recommendations for their friendly use in communication, as well as what changes should be made within the company's current system of occupational safety rules, taking into account employees' well-being. Managers rehearse challenging situations in groups, such as how to deal with people who don't take safety seriously. This element of the development program aims to teach leaders how to communicate through difficult situations, learn tactics on how to keep calm and address the situation without escalating to a non-productive atmosphere.

Advanced technologies and continuous improvements from EHS leaders in workplace organizations, especially in the production sector, lead to the fact that employees eventually get a sense of "total safety". This is typically where the "optimist's mistake" is concealed. An employee's own experience is clear. Individuals debate based on the facts at hand rather than statistical conclusions. The mistake is that people tend to exaggerate their thoughts about themselves that they are smarter or lucky than others — so, they neglect safety risks due to the "exclusivity effect". A useful technique for overcoming such cognitive biases that managers could use is employees' "lifetime epicrisis" — a group discussion of the case and collaborative detailed analysis of the reasons after failure (personal or one of team members).

Managers, on the other hand, could take advantage of the human tendency to misrepresent probabilistic events. People often infer the general from the particular rather than the other way around, which is the basis for the argument.

Managers can affect employees' perception of situations that pose a risk to their personal safety by purposefully focusing greater attention on infrequent incidents (accidents, injuries) that elicit strong memories and vivid imagery, when these events are "overloaded" with facts. As a result, there is an outcome of "over-attention" to effort to reduce the likelihood of unusual events.

Simultaneously, it is imperative to conduct an audit of the company's current occupational safety system. This involves analyzing the system for inconsistencies in instructions, "overloading" employees with unnecessary procedures, contradictions with one another, and inconsistencies with business objectives and other business processes. Here is an illustration of how these "system bugs" may affect the "human" element and the well-being of employees.

A worker on a large plant discovered that working without gloves is more convenient and efficient. His products are being produced at a faster rate. Because the pay is piecemeal, income is increasing. Since then, this worker has instituted the practice of working without gloves, rising to the position of production leader... until the incident occurred. Is it suitable to discuss the amount of money he lost while receiving treatment and recovery? This employee now makes sure that not only does he wear protective equipment himself, but he also takes great care of his coworkers' equipment. He always recalls what happened. It was a classic case of a conflict of interest between an individual's desire to raise their own income and their own safety at work. This circumstance instructs us to reevaluate the current state of concrete C&B and safety measures in order to reduce inconsistencies with each employee's motivational "dominant".

Our team has been effectively implementing a development-focused, safety-focused, inspirational leadership approach for several years. The most logical example comes from a famous writer, marketer, and businessman Seth Godin, who said: *"People don't believe what you tell them. They rarely believe what you show them. They often believe what their friends tell them. They always believe what they tell themselves"*<sup>2</sup>.

Our Inspiration Safety Management Development Program emphasizes effective communication and teaches participants how to create captivating safety stories they can share with peers and subordinates. The more significant

the narrative, the more it impacts an individual, the more likely it is that the person hearing the story will successfully absorb its meaning. It's coupled with the following psychological effect: the more identifiable the image, the more the statement is associated with safety and honesty, simple phrases convince more than complex ones. It all comes down to storytelling, which is currently one of the most widely used business tools and a welcoming, easy approach to convey information that promotes employees' well-being.

Everyone who takes part in the Inspiration Safety Program chooses a personal safety narrative. Storytellers share their stories in small break-out groups choosing one of their own. They get input on their narrative from the group when they finish sharing it. Feedback includes suggestions on how to enhance the story to ensure that the audience is reached at a higher level. It also includes helpful feedback from both listeners and trainers on what aspects of the story they found difficult to follow, what parts grabbed their attention, and how the story made them feel. Superior safety performance can be inspired by presenting compelling personal tales and messages to the audience. Constructing a personal delivery strategy that inspires through authenticity, presence, and tone while fostering emotional awareness and a connection with others influences leaders by raising their own well-being levels.

Development of a company's overall safety culture is the last but equally crucial component. According to scientists, an employee's psychological makeup combined with specific work conditions should be taken into account when determining their likelihood of accidents. Personal qualities are formed through activity and are directly influenced by the social environment. Therefore, an individual's propensity for danger is not so much an innate trait as it is a result of development<sup>3</sup>. Therefore, the company doubles the effect of influence on "human factor" and personal well-being by, for example, using the psychological priming effect through constant and consistent communication of relevant context, messages such as "There are no indifferent people", "An employee comes to work healthy and must leave it healthy", "When one person suffers, several people suffer, his family and other families". This is because safety behavior becomes not only a "rule for the work", but also a "way of life" for employees and their families and friends.

<sup>2</sup> Godin, S. (2008). *Tribes: We Need You to Lead Us*. Penguin, P. 138.

<sup>3</sup> Kotik, M. (1981). *Psychology and safety*. Tallinn: Valgus, 440 p.





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# How can long-term value creation inspire new opportunities?



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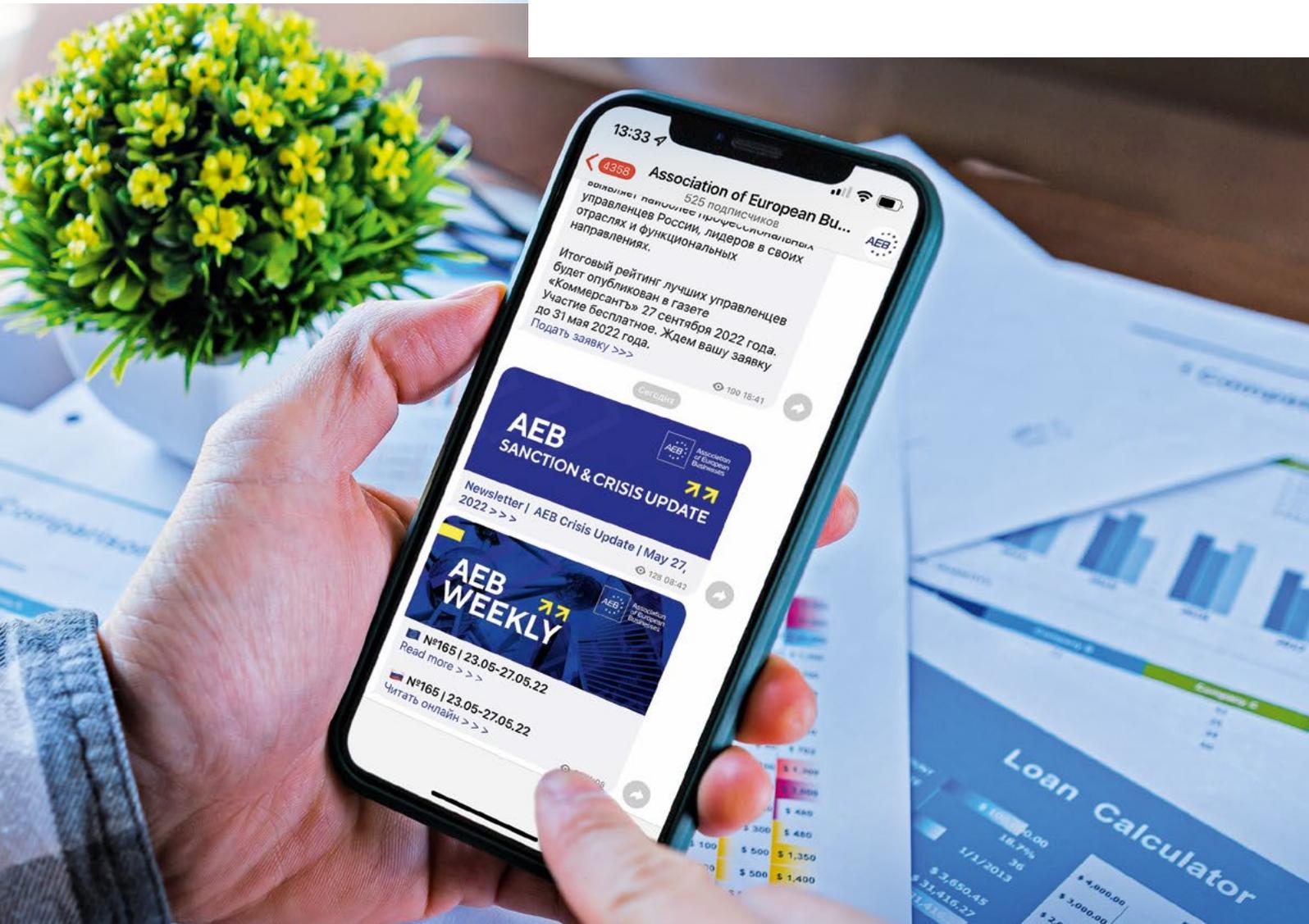


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