

**ENVIRONMENTAL, SOCIAL AND  
GOVERNANCE INDICATORS AND KEY  
ISSUES REFERENCE DOCUMENT**

***(AHMAD HASSAN TEXTILE MILLS LIMITED)***

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## 1.1. BACKGROUND

Environmental, social and governance (ESG) research is a core part of the equities investment process and developing in scope for fixed income.

## 1.2. PURPOSE

The purpose of this document is to define the ESG key performance indicators (KPIs) which we consider particularly relevant.

## 1.3. OBJECTIVE

The objectives of the document is to set out both global and thematic views as well as individual Company KPIs in the area of environmental, social and governance research.

## 1.4. SCOPE

The scope of this document is as a supporting document to the main Governance and Responsible Investment policy. Applicable to the Governance and Responsible Investment team.

## 2.1. GENERAL

### a) Environmental Factor

The environmental factor is primarily concerned with the company's influence on the environment and its ability to mitigate various risks that could harm the environment. Generally, a company is assessed by its use of energy, waste generation, level of the pollution produced, utilization of the resources, and treatment of animals. The company's environmental policies and its ability to mitigate the environmental risks may directly influence its financial performance. More governments around the world introduce strict environmental policies and the company's inability to comply with the standards may result in significant penalties. In addition, the company's irresponsible environmental policy may damage the areas of the operations and subsequently limit the company's operational capacity.

### b) Social Factor

The social factor investigates the company's relationships with other businesses and communities. Social factor considers the attitudes towards diversity, human rights, and consumer protection. The social factor may affect the company's operational success by attracting new customers and retaining their loyalty, and maintaining relationships with business partners and communities affected by the company's operations.

### c) Corporate Governance

Corporate governance is concerned with the internal company's affairs and the relationships with the main company's stakeholders, including its employees and the shareholders. The proper and transparent corporate governance can help avoid conflicts of interest between the company's stakeholders, and potentially huge litigation expenses.

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In addition, corporate governance is directly linked to the company’s long-term success as proper governance policies can help to attract and retain talented employees.

## 2.2. ROLES AND RESPONSIBILITIES:

<b>Role</b>	<b>Responsibility</b>
CFO	Sheikh Muhammad Naeem
Manager finance	Zubair Nasir
Admin Manager	Muhammad Khalid
Unit wise GMs (with guidance and approval of Board of Directors)	Umar Farooq & Shafiq Basra

## 3.1. ESG VALUE PROPOSITION

The ESG research focuses on all three aspects of ESG and we believe a holistic understanding of these indicators provide a sound overview of management quality and can contribute to shareholder value. This neatly summarizes the link between growth, return on capital and risk management to ESG issues which impact business operations such as innovation, reputation, cost reduction and market power.

<b>Growth</b>	<b>New Markets &amp; Geographies</b>	Gain access to new markets and geographies through exposure from ESG programs
	<b>New Customers &amp; Market Share</b>	Use ESG programs to engage customers and build knowledge of expectations and behaviour
	<b>Product &amp; Services Innovation</b>	Develop cutting-edge technology and innovative products and services for unmet social or environmental needs
	<b>Long-term strategy</b>	Develop long-term strategy encompassing all ESG issues and shape material ESG communication based on value driver framework
<b>Return on Capital</b>	<b>Operational Efficiency</b>	Enable bottom line cost savings through environmental operations and practices (e.g. energy, water, waste efficiency, less raw materials used)
	<b>Human Capital Management</b>	Attract & retain better and highly motivated employees by positioning company and management as ESG leaders

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<b>Risk Management</b>	<b>Operational &amp; Regulatory Risk</b>	Mitigate risks by complying with regulatory requirements and industry standards and ensure uninterrupted operations by addressing ESG issues in policies, systems and standards and engaging with employees
	<b>Reputational Risk</b>	Facilitate uninterrupted operations and entry in new markets using local ESG efforts and community dialogue to engage citizens and reduce local resistance; avoid negative media publicity and NGO boycotts by addressing ESG issues
	<b>Supply Chain Risk</b>	Secure consistent and long-term access to high-quality raw materials and products by engaging in supply chain community welfare and development
	<b>Leadership &amp; Adaptability</b>	Develop leadership skills and culture to adapt to fast changing political, social and environmental situations

### 3.2. THEMES OF INTEREST

ESG theme	Investment considerations
Climate change and energy	<ol style="list-style-type: none"> <li>1. Energy efficiency enabling technological providers</li> <li>2. Renewable Energy Sources</li> <li>3. Energy transition technologies and sources – eg Gas products, storage technology, smart grid</li> <li>4. Electric vehicles</li> <li>5. Plant inspections</li> </ol>
Water availability and management	<ol style="list-style-type: none"> <li>6. Water management strategies</li> <li>7. Pollution control technologies</li> <li>8. Distribution and access</li> </ol>
Food and nutrition	<ol style="list-style-type: none"> <li>9. Food producers</li> <li>10. Agricultural companies</li> <li>11. Chemical and seed providers</li> </ol>
Population Growth	<ol style="list-style-type: none"> <li>12. Employee relations and people management strategies</li> <li>13. Supply chain oversight</li> <li>14. Community opposition</li> <li>15. Infrastructure development</li> </ol>
Ageing populations	<ol style="list-style-type: none"> <li>16. Pension reform</li> <li>17. Infrastructure needs</li> <li>18. Other post employment benefits</li> <li>19. Distribution of household items</li> </ol>
Education	<ol style="list-style-type: none"> <li>20. Access to education</li> <li>21. New forms of teaching</li> <li>22. Scholarships</li> <li>23. Vehicles for staff children</li> <li>24. Free education plans</li> </ol>

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Healthcare	25. Access to healthcare units 26. Medical insurance coverage 27. Organizing free medical camps 28. Paying employees medical bills
Safety, Security and verification	29. Data protection and consumer protection 30. Inspection and certification providers 31. Safety technology and processes 32. Greater enforcement of regulation and fines 33. Innovative IT solutions and information management

## 4.1. LABOUR RELATIONS

Labour relations are particularly relevant in extractive industries, companies with history of governmental influence such as telecommunications, and for companies that have a focus on innovation, R&D and need highly skilled labour.

Good health and safety practices and strong employee training programmes improves productivity and employee retention for example companies have shown growth in sales per employee workforce hour following targeted training programmes. Poor health and safety practices can result in fines, production disruption and relatively long slumps in the shareprice. Similarly industrial action in extractives can lead to prolonged disruption to operations. Indicators we look for include:

- Lost time injury rate and fatalities declining or flat if already at a low level
- Training hours per employee
- Relationship with unions