

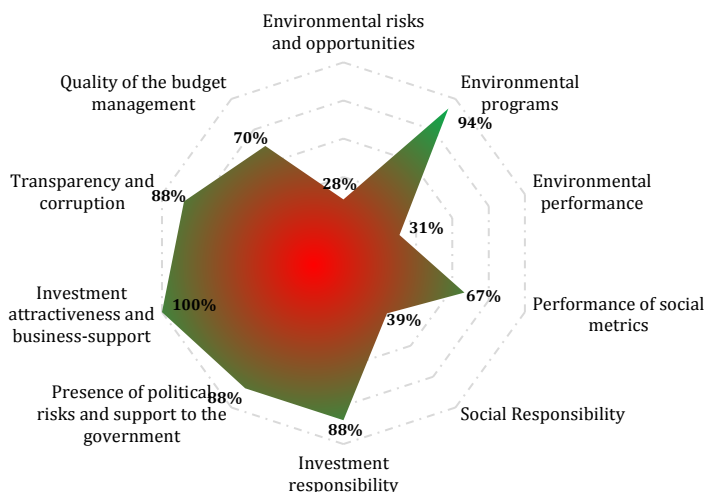
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### Risk map



### Ratings

Environmental	BB[e]
Social	BBB[s]
Governance	AA[g]
<b>ESG</b>	<b>BBB[esg]</b>

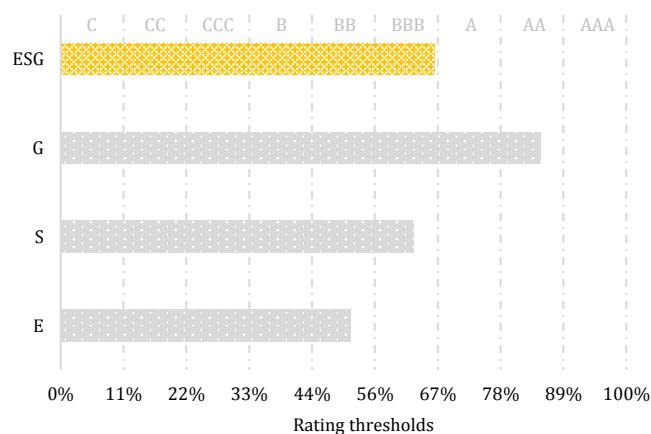
### Summary

Rating-Agentur Expert RA confirmed BBB[esg] ESG rating to the Lipetsk region, which means that the management of ESG related risks and opportunities is moderately high. The ratings of each section are as follows: BB[e] environmental rating, BBB[s] social rating and AA[g] governance rating. The region remains exposed to industry related environmental risks due to the locations of the large industrial enterprises, these risks are partly mitigated by the actions of the authorities and local business. Lipetsk oblast has a strong environmental policy, which is based on the presence of a structured long-term environmental program as well as public body responsible for the environmental policy. The assessment of social risks was positively supported by the presence of different social programs, good health care and social security metrics while indicators of the education system development were moderate; however, the lack of priorities for social responsible industries had an adverse effect on this section. The assessment of the regional governance was positively supported by a high level of investment attractiveness, high level of transparency and presence of anti-corruption procedures, while the quality of fiscal budget planning restricts the assessment.

### ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11,1%	28%
	Environmental programmes	11,1%	94%
	Environmental performance	11,1%	31%
Social	Performance of social metrics	11,1%	67%
	Social responsibility	11,1%	39%
	Investment responsibility	11,1%	88%
Governance	Presence of political risks and support to the government	8,3%	88%
	Investment attractiveness and business-support	8,3%	100%
	Transparency and corruption	8,3%	88%
	Quality of the budget management	8,3%	70%

### ESG score and rating per section



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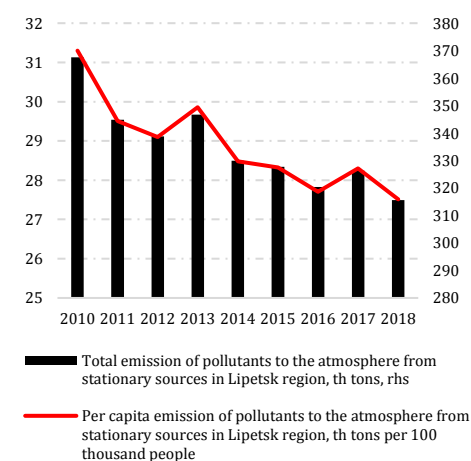
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## Environment

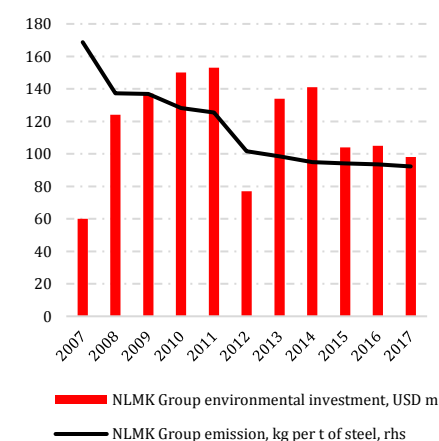
Sub-factor	Score
Environmental risks	18%
Environmental opportunities	38%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	31%

**Graph 1:** Industrial air emission metrics of Lipetsk region



Source: RAEX-Europe calculations based on data from the Rosstat

**Graph 2:** NLMK Group’s environmental metrics



Source: RAEX-Europe calculations based on data from the NLMK group

### Presence of a detailed and comprehensive long-term environmental policy program and public bodies responsible for the policy

The regional government has a long-term structured environmental policy program, called “*Environmental Protection, Reproduction and Rational Use of Natural Resources of the Lipetsk Region, 2014-2020*” that covers all key environmental risks of the region: environmental safety; protection and reproduction of objects of fauna; development of water management complex and handling of waste. This program includes detailed measures, KPIs, responsible authorities and sources of financing.

Apart from this, there is a regional program “*Ecology*”, which includes the following sub-projects financed by the regional budget: “*Clean Air*”, “*Clean Country*”, “*Integrated System for the Treatment of Solid Municipal Wastes*”, “*Preservation of Unique Water Features*”, “*Conservation of Forests*”, “*Clean Water*”, “*Conservation of biological diversity*”.

In addition, the regional government has several bodies responsible for the environmental policy – **Department of Ecology and Natural Resources**; Forestry Department; Department for protection, use of wildlife and aquatic biological resources. The Department of Ecology and Natural Resources publishes the reports on the local “environmental situation” on a yearly basis. The report contains detailed information about the key environmental risks and mitigations, as well as environmental performance metrics, including air and water pollution, both showing positive (declining) dynamic in 2018.

### Moderate level of involvement in environmental opportunities

The region uses a limited number of environmental opportunities, such as solar power, biomass & biofuels, energy efficient street lighting and more ecological fuel for public transport, while other environmental opportunities such as wind power or hydroelectricity are also available. However, most of the mentioned environmental opportunities’ efficiency is limited according to the Agency’s assessment. For instance, the use of solar power and biomass & biofuels still remains on a project stage.

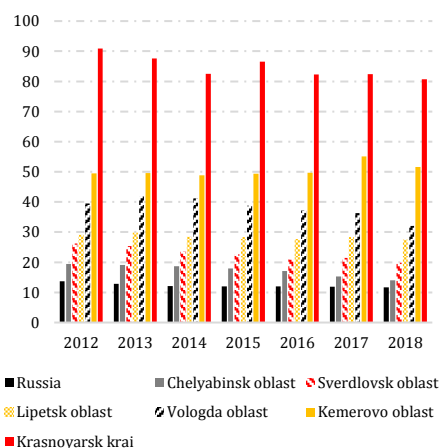
Only 105 buses in the region (8,5% of total amount) were capable to use gas-engine fuel in 2016 (the latest available data), which is well below peers, according to the data from Ministry of Natural Resources and Environment of the Russian Federation. At the same time, the Lipetsk region took the second position within the group of regions with comparable amount of fiscal resources<sup>1</sup> in the Ranking of the energy efficiency 2017 (the latest available), calculated by the Ministry of Energy of the Russian Federation, which shows the highest levels of energy efficiency in the public sector.

<sup>1</sup> <https://minenergo.gov.ru/view-pdf/5197/76616>

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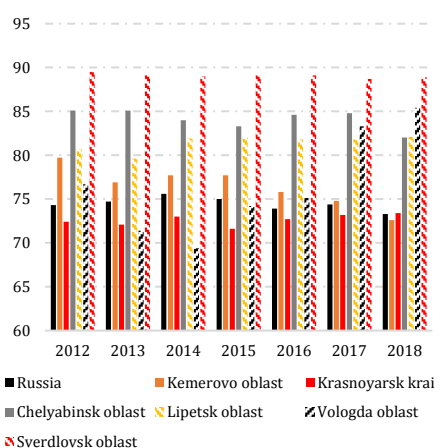
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**Graph 3:** Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



Source: RAEX-Europe calculations based on data from the Rosstat

**Graph 4:** Share of captured and detoxified air pollutants in the total volume of departures from stationary sources, %



Source: RAEX-Europe calculations based on data from the Rosstat

**Moderate level of environmental protection programs financing**

According to the 2018 results, only 1,44% of the total regional budget expenditures were attributed to ecology-related programs, while per capita expenditures of the 2018 consolidated budget in the section “Environmental protection” were only RUB 100 per person as compared to RUB 280 per person on average for all Russian regions and below its national peers<sup>2</sup>. In addition, the region has limited involvement in internationally recognized environmental programs.

**The exposure to industry related environmental risks remains high, but mitigating actions from local authorities and local businesses are leading to gradual decline of the pollution metrics**

The Lipetsk oblast is heavily exposed to various environmental threats, especially to *industrial air pollution*, due to the Novolipetsk Steel Factory (part of NLMK group<sup>3</sup>), which is located in Lipetsk. The region occupied the 14<sup>th</sup> place by total emission of pollutants to the atmosphere from stationary sources with 315,6 th tons of overall emissions, while per capita emissions stood at 27,5 th tons (10<sup>th</sup> place), which is 2,4x higher than the country’s average (see Graph 1). This key risk is partly mitigated by various actions performed by the local and federal governments (mostly through strict control of the main polluters in the region), as well as directly by the NLMK group. The latter has been implementing the long-term environmental program for the Lipetsk facility, the result of which is shown by the declining dynamic of air emissions per ton of steel (see Graph 2). *The overall risk mitigation is shown by the reduced level of emissions per capita and very high share of captured and detoxified air pollutants in the total volume of departures from stationary sources as compared to the national peers (82% against 74,4% country average) (see Graphs 3 and 4).* In addition, the Lipetsk oblast is exposed to some other environmental risks. Being a region, which used to be dominated by agricultural development, the region is exposed to deforestation and fertilizers’ pollution. These risks are partly mitigated by various actions, including the creation of specially protected natural areas as well as by using modern technologies in the agricultural sector.

**List of major controversies**

Controversy	Type of factor
No controversies were found	Environmental

Source: RAEX-Europe calculations based on data from the government of the Lipetsk region, Ministry of finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

<sup>2</sup> The regions where the largest steel factories are located were used as national peers.  
<sup>3</sup> The largest steel-producing company in Russia and 17<sup>th</sup> in the World according to the 2018 results (<https://www.worldsteel.org>).

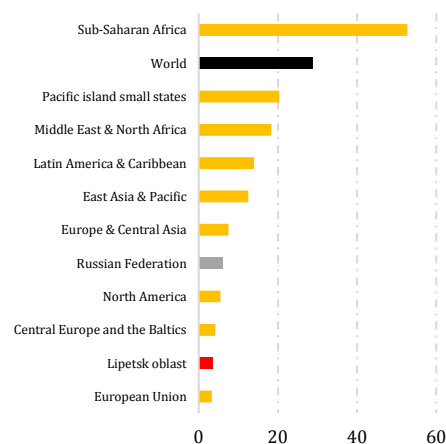
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## Social

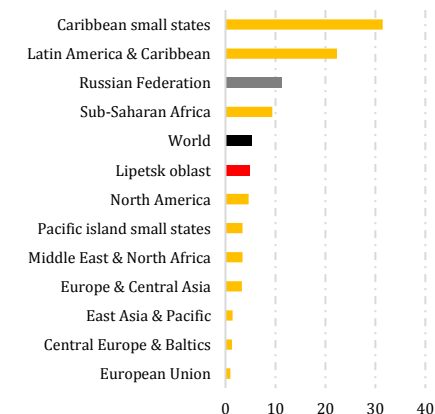
Sub-factor	Score
Social benefits and social security functions	75%
Education	40%
Health care system	82%
Security	66%
Socially responsible industry	26%
Socially responsible programmes	58%
PPP Investment	88%

**Graph 5:** Infant mortality rate 2018, infant per 1,000 live births



Source: RAEX-Europe calculations based on data from the World Bank and Rosstat

**Graph 6:** The number of murders per 100 000 people in 2015



Source: RAEX-Europe calculations based on data from the World Bank and Rosstat

### Low poverty levels as compared to other Russian regions with adequate levels of public spending on social support per capita

The share of population with a net personal income below the national minimum in the Lipetsk region was 8,7% as of end-2018, a positive figure when compared to country's average of 12,9%. Even though we observed that total budget expenditures on social support per capita adjusted by the local cost of living at RUB 14,7 th (47<sup>th</sup> place) in 2018 was below the average figure for all Russian regions of RUB 16,4 th, we consider this level as adequate since part of the socially oriented expenses were accounted in other sections of the fiscal report 2018.

### Presence of social oriented PPP-projects and various socially responsible programs

Out of 89 PPP projects in the Lipetsk region (2018 latest available data), 52 are social infrastructure projects (around 58%), such as local utilities, water and heating supply facilities. However, only 12 projects out of 52 are finalized. Also, despite the Lipetsk region having occupied only the 39<sup>th</sup> out of 85 position in the ranking of Russian regions 2018 by the level of PPP development<sup>4</sup>, we still consider that the socially-focused PPP projects are substantial. In addition, the region is involved in various socially responsible programs such as housing programs, public sport programs, support of disabled persons, poor people, etc..

### Moderately low level of infant mortality rate combined with adequate level of health care public spending

Lipetsk region has a moderately low level of infant mortality rate as compared to international levels: 3,6 pro mille in the oblast in 2018 as compared to 28,9 pro mille in the World (see Graph 5), while the national level stood at 6,1 pro mille (according to World Bank data). In addition, the region occupied the 53<sup>rd</sup> place by total amount of spending on the health care system per capita in 2018 (adjusted for the cost of living): RUB 4,2 th as compared to a RUB 6,5 th average for all Russian regions.

### Moderate level of education metrics

The region is characterized by a moderate share of *employed people with higher education as compared to the national peers* (30,5% against 33,6% for the country's average in 2018), as well as an acceptable amount of spending on education per capita (RUB 18,2 th as compared to RUB 20,5 th country average in 2018). The authorities has in place all obligatory programs for the regional education systems according to the Russian regulation. Moreover, the region has implemented some elements of the "Dual education system", which is considered as additional positive factor.

<sup>4</sup> Prepared by the Centre of PPP development in Russia. See the latest ranking: <http://pppcenter.ru/assets/docs/%D0%A0%D0%B5%D0%B9%D1%82%D0%B8%D0%BD%D0%B3-2018-2019.pdf>

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However, there are no universities from the region included to the major global universities rankings.

**Moderately high crime rates as compared to global peers are partly mitigated by the level of public spending on security in the region**

The number of murders per 100 th people<sup>5</sup> in the Lipetsk region stood at 4,8 in 2015 as compared to a world average of 5,3 (the latest global data available) (see Graph 6), to 1 in the EU and to 11 in the Russian Federation in average. However, this indicator was gradually declining in recent years and reached 3,8 in 2018 as compared to the national average of 5,8 in the same period. Total budget expenditures on security per capita in the region adjusted by the local cost of living was equal to RUB 856 (36<sup>th</sup> place), while the average figure for all Russian regions was RUB 950 in 2018.

**Lack of priorities for socially responsible industries and restrictions for controversial industries**

The investment policy of the region has no clear social priorities, which is evidenced by the priorities listed in the investment strategy of the region, as well as industries receiving tax reliefs and deductions. Moreover, the region does not impose additional restrictions or increased taxation on the majority of controversial industries.

**List of major controversies**

Controversy	Type of factor
No controversies were found	Social

Source: RAEX-Europe calculations based on data from the government of the Lipetsk region, Ministry of finance of the Russian Federation, World Bank, public sources of information.

<sup>5</sup> "Number of murders per 100 th people" is national indicator for the Russian Federation, that was compared with the World Bank indicator: "Intentional homicides (per 100 th people)".

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## Governance

Sub-factor	Score
Stability of the government	100%
Support to the government	75%
Investment attractiveness / business-climate	100%
Industrial parks and free economic zones	100%
Transparency of the regional government in the Internet Regulatory Impact Assessment (RIA) practices OR Similar practices	79%
Anti-corruption commission / department in the regional administration	100%
Characteristics of self-declarations of the employees of administration bodies	82%
Quality of the fiscal budget planning	80%
Quality of the fiscal budget execution	29%
Quality of the debt management	63%
Tax deductions and credits	100%

### High level of investment attractiveness combined with an important amount of acting special economic zones, industrial parks as well as various tax reliefs for investors complemented by the assessment of their efficiency

According to the Rating of investment attractiveness from RAEX-Analytics for 2019, Lipetsk region was attributed to the group 3A1 (reduced potential - minimal risk), and occupied the 3<sup>rd</sup> position in terms of risks (the regions are listed from the lowest to the highest level of risks). In addition, investment attractiveness of the region was supported by the presence of two acting industrial parks, technological parks, regional special economic zones, as well as a federal special economic zone “Lipetsk” where a large number of foreign investors localized their facilities. Moreover, the regional government provides reliefs for corporate profit tax (reduced tax rate)<sup>6</sup>, property tax (reduction of the amount of tax payables and reduced tax rate) and transport tax for the investors. It also publishes a yearly report in regard to the efficiency on the provided tax reliefs in the region. In addition, in order to improve the environmental situation and reduce air pollution, from 2019 the tax reliefs were expanded to the power plants, that use “secondary raw materials”.

### High level of the regional government transparency and well developed regulatory impact assessment procedures

The regional government discloses key information about the government’s decisions, meetings and vacancies on time on its websites. However, the region has significant room for improvement in terms of structure of its websites (*currently the structure is decentralized*), as well as deepness of information disclosure. In addition, the region has an acting system of regulatory impact assessment (RIA) with a special section of the website including contact details for provision of comments and an official public body responsible for this process. Moreover, in 2018 Lipetsk region was attributed to the group of regions with the “*highest level*” of RIA implementation<sup>7</sup>, according to the rating of RIA development in Russian regions, prepared by the *Ministry of Economic Development of the Russian Federation*.

### Presence of anti-corruption procedures and satisfactory level of the self-declarations disclosure

The commission for the coordination of anti-corruption activities in the Lipetsk oblast has been in place since 2015, conducting meetings at least every quarter and disclosing the minutes in the internet. Also, all public bodies of the government have self-declarations for 2018 disclosed online and containing the actual information about the income and property of

<sup>6</sup> This type of tax reliefs are planned to be expanded to additional types of companies (33 additional types of activity) from 2020 in order to promote investment activity.

<sup>7</sup> All regions were divided by five groups in accordance with the quality of RIA implementation: leaders; highest level; good level; satisfactory level; nonacceptable level. See the full text of report is available under the following link: <http://orv.gov.ru/Regions/Ratings?prop=Rating&order=Desc>

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employees and their families. However, the efficiency of the anti-corruption policy can be improved due to the presence of corruption cases revealed in the regional administration in 2018.

**Low level of political risks**

The current governor of the region was assigned by the President of the Russian Federation on the 2<sup>nd</sup> of October 2018 as an acting Head of the Regional Administration and then he was elected in September 2019 in the public elections with 67,3% of the votes. His current term will end in 2024. The combination of the share of votes and the fact that the next elections are not planned at least for the next four years, are considered as positive factors according to the Agency’s methodology. Political risks are also mitigated by the absence of public political conflicts in the region. However, the position of the governor in the independent political science ranking is assessed as moderate<sup>8</sup>.

**Moderately high quality of fiscal budget execution and debt management**

The quality of fiscal budget execution and debt management in the Lipetsk region was supported by the absence of overdue accounts payable and overdue debt over the last years, presence of internal audit for the budget administrators<sup>9</sup>, as well as experience in issuing bonds on the local financial markets. In 2018, Lipetsk region issued government bonds in the form of “documentary bearer securities” with a fixed coupon rate of 8,57% per annum with a total value of RUB 3 bn and a 7Y maturity. At the same time, the fiscal budget in 2018 was characterized by moderately high deviation of the amount of budget spending in the 4Q 2018 from the average amount during 1-3Q of the year which restricted the factor assessment.

**Moderately low quality of fiscal budget planning**

The quality of the fiscal budget planning in the region was limited by moderately frequent changes if the fiscal budget plan was revised **six times** during last year. The quality of the budget was also affected by the **high difference between the planned budget revenues and expenditures for 2018 as compared to the executed**. At the same time, the region approved its fiscal plan for 2018 on time and has no liquidity gaps during the year, which gave some support to the end-assessment of this factor.

**List of major controversies**

Controversy	Type of factor
No controversies were found	Governance

Source: RAEX-Europe calculations based on data from the government of the Lipetsk region, Ministry of finance of the Russian Federation, Ministry of Economic Development of the Russian Federation, public sources of information.

<sup>8</sup> According to the ranking of “Petersburg Policy Fund” think tank for October 2019, the Lipetsk region was attributed to the group of regions with “moderate political resistance”: <https://fpp.spb.ru/fpp-rating-2019-10>

<sup>9</sup> The administrator of budgetary funds (the main administrator of the funds of the corresponding budget) is the public authority (state body), responsible for allocating budgetary funds to subordinate managers and (or) recipients of budgetary funds.

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**Minute's summary:**

The rating committee for ESG rating of the Lipetsk region was held on **12 December 2019**. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the ESG methodology for regions. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning ESG Ratings to regions – Short Public Version (from September 2017) can be found under the following link: [https://raexpert.eu/files/methodology/Methodology\\_ESG\\_Region.pdf](https://raexpert.eu/files/methodology/Methodology_ESG_Region.pdf). Descriptions and definitions of all rating categories can be found under the following link: [https://raexpert.eu/esg\\_regions/](https://raexpert.eu/esg_regions/) under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

**These rating is solicited. The rated entity participated in the rating process.**

Main sources of information: The Government of the Lipetsk region, Ministry of Finance of the Russian Federation, Ministry of Economic Development of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

**Limits of the Rating**

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the region with information considered as the most reliable and up to date in accordance to the overall position of the region and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

**Regulatory use**

ESG ratings are not considered as credit ratings within the framework of Regulation (EC) No 1060/2009.

**Conflict of interest**

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

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