

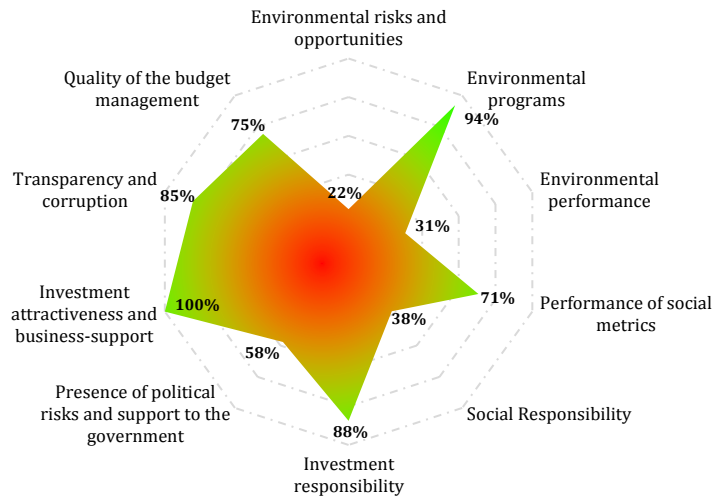
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Risk map



Ratings

Environmental	BB[e]
Social	BBB[s]
Governance	AA[g]
ESG	BBB[esg]

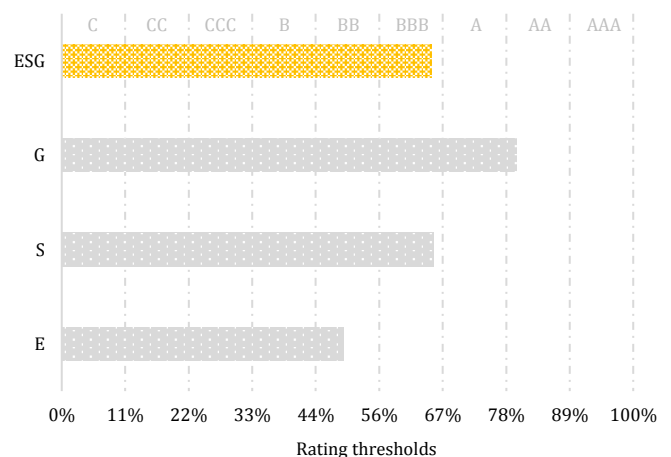
Summary

Rating-Agentur Expert RA GmbH assigned 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: BB[e] environmental rating, BBB[s] social rating and AA[g] governance rating. The region is heavily exposed to industry related environmental risks, such as industrial air pollution, which 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 comprehensive long-term environmental program as well as the existence of a public body responsible for the management and execution of this policy. The assessment of social risks was positively supported by the presence of different social programs and socially oriented PPP-projects, good health care and social security metrics while moderate indicators of education system development; 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 high level of investment attractiveness, sufficient level of transparency, presence of anti-corruption procedures, while moderate quality of fiscal budget planning restricts the assessment.

ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11,1%	22%
	Environmental programmes	11,1%	94%
	Environmental performance	11,1%	31%
Social	Performance of social metrics	11,1%	71%
	Social responsibility	11,1%	38%
	Investment responsibility	11,1%	88%
Governance	Presence of political risks and support to the government	8,3%	58%
	Investment attractiveness and business-support	8,3%	100%
	Transparency and corruption	8,3%	85%
	Quality of the budget management	8,3%	75%

ESG score and rating per section



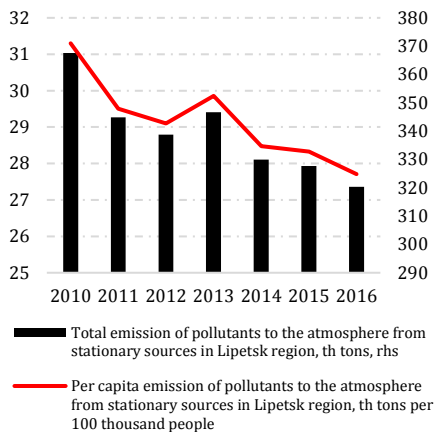
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Environment

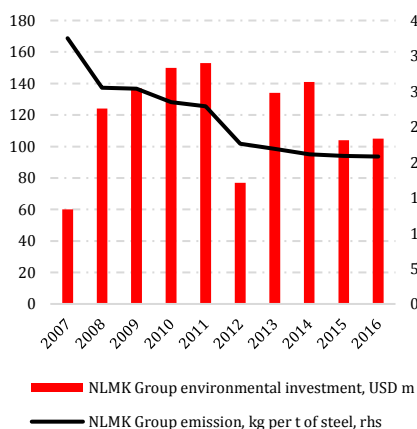
Sub-factor	Score
Environmental risks	9%
Environmental opportunities	34%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	31%

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 well-defined 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, efficiency metrics, responsible bodies and sources of financing. 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.

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 remain on the project stage.

However, most of the mentioned environmental opportunities' efficiency is limited according to the Agency's assessment. For instance, only 105 buses in the region (8,5% of total amount) was capable to use gas-engine fuel in 2016, which is well below the peers, according to the data from Ministry of Natural Resources and Environment of the Russian Federation. At the same time, the Lipetsk region took a second position within the group of regions with comparable amount of fiscal resources¹ in the Ranking of the energy efficiency 2017 calculated by the Ministry of energy of the Russian Federation, which shows the high levels of energy efficiency in the public sector.

Moderate level of environmental protection programs financing

According to the 2017 results, only 1,4% of the total regional budget expenditures were attributed to the programs “Development of forestry in the Lipetsk region” and “Environmental protection, reproduction and rational use of natural resources of the Lipetsk region”. Moreover, per capita expenditures of the consolidated budget in the section “Environmental protection” were as low as RUB 78 per person as compared to RUB 192 per person on average for all Russian regions and below its national peers². In addition, the region has limited involvement in internationally recognized environmental programs.

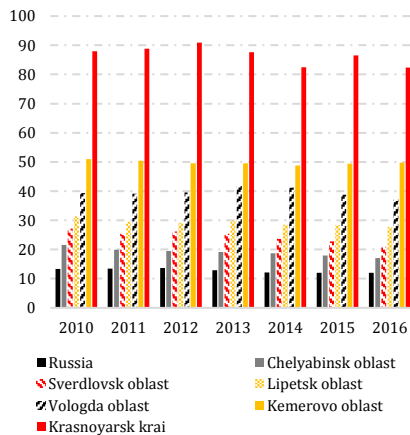
¹ <https://minenergo.gov.ru/view-pdf/5197/76616>

² The regions of localisation of the largest steel factories were used as national peers.

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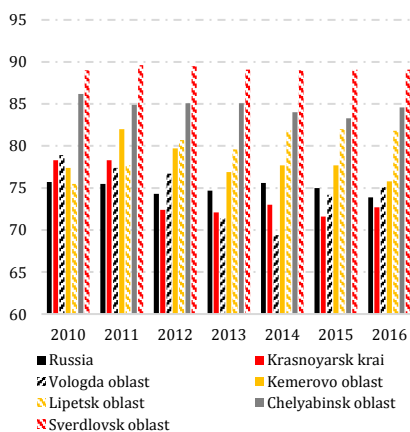
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Graph 3: Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



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

High exposure to industry related environmental risks, which are partly mitigated by the actions of authorities and local business

Being the region where Novolipetsk Steel Factory (part of NLMK group³) is located, the Lipetsk oblast is heavy exposed to various environmental threats, especially to industrial air pollution. The region occupied the 13th place by total emission of pollutants to the atmosphere from stationary sources with 320 th tons of overall emissions, while per capita emissions stood at 27,7 th tons, which is 2,3x higher than the country's average (see graph 1). This key risk is partly mitigated by various actions done 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 declining 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 peers⁴ (82% against 73% country average) (see graphs 3 and 4).

In addition, the Lipetsk oblast is exposed to some other environmental risks. Being a region of "old" area of agricultural development, the region is exposed to deforestation and fertilizers' pollution. These risks are partly mitigated by various actions, including 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.

³ The largest steel-producing company in Russia and 16th in the World according to the 2016 results (<https://www.worldsteel.org>).

⁴ The regions of localisation of the largest steel factories were used as national peers.

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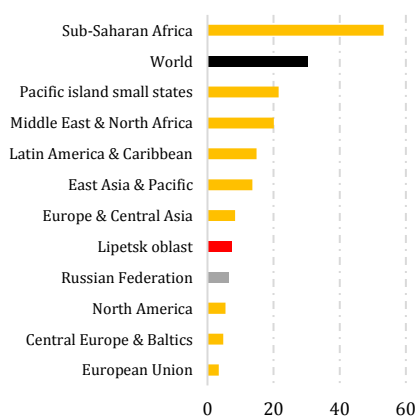
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Social

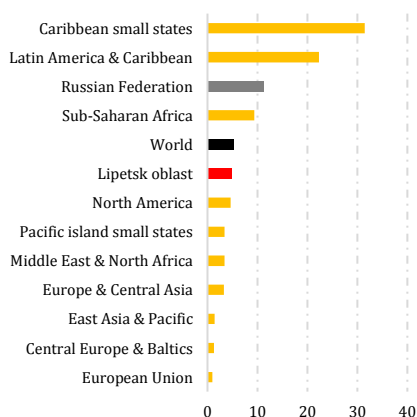
Sub-factor	Score
Social benefits and social security functions	88%
Education	40%
Health care system	82%
Security	69%
Socially responsible industry	25%
Socially responsible programmes	58%
PPP Investment	88%

Graph 5: Infant mortality rate 2016, infant per 1,000 live births



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

Graph 6: No. of murders per 100 th people



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

Low poverty levels in national terms combined with elevated 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 around 9% as of end-2016, a positive figure when compared to country’s average of 13%. In addition, total budget expenditures on social support per capita adjusted by the local cost of living was equal to RUB 13,5 th (16th place) in 2016, while the average figure for all Russian regions was RUB 11,5 th.

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

Out of 89 PPP projects in the Lipetsk region, 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. In addition, the Lipetsk region occupied only the 34th position in the ranking of Russian regions by the level of PPP development out of 85, prepared by the Center of PPP development in Russia⁵. 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: 7,4 pro mille in the oblast in 2016 as compared to 30,5 pro mille in the World (see graph 5). However, in 2017 this metric improved significantly and reached 3,4 pro mille, while the national level stood at 5,5 pro mille. In addition, the region occupied the 46th place by total amount of spending on the health care system per capita in 2017 (adjusted for the cost of living): RUB 3,6 th as compared to a RUB 5,8 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 (28% against 33% for the country’s average in 2016), as well as an acceptable amount of spending on education per capita (RUB 16,9 th as compared to RUB 18,6 th country average in 2017).

Moderately high crime rates are mitigated by elevated public spending on security in the region

The number of murders per 100 th people⁶ in the Lipetsk region stood at 4,8 in 2015 as compared to 5,3 World average (see graph 2), 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 3,9 in 2017 as compared

⁵ See the latest ranking: http://pppcenter.ru/assets/docs/raytingREG2017_B5_Block_31-03-2017-web.pdf

⁶ “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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to 6,5 national average 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 852 (25th place), while the average figure for all Russian regions was RUB 811 in 2017.

Lack of priorities for socially responsible industries and restrictions for controversial industries, is partially mitigated by the ecological and technological investment priorities set out by the government

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 doesn't impose additional restrictions or increased taxation on majority of controversial industries. However, this is mitigated by the industry priorities of the regional investment policy, focusing on the projects with a high added value, low environmental influence, as well as high level of technological development. This was evidenced by the current Investment strategy of the Lipetsk region.

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.

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Governance

Sub-factor	Score
Stability of the government	28%
Support to the government	88%
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	76%
Anti-corruption commission / department in the regional administration	95%
Characteristics of self-declarations of the employees of administration bodies	86%
Quality of the fiscal budget planning	70%
Quality of the fiscal budget execution	57%
Quality of the debt management	88%
Tax deductions and credits	79%
	100%

High level of investment attractiveness combined with the 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 2017, Lipetsk region was attributed to the group 3A1 (reduced potential - minimal risk), and occupied the 3rd 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 and a federal special economic zone “Lipetsk” where a large number of foreign investors localized their facilities.

Moreover, the regional government provides reliefs for corporate tax (reduced tax rate), property tax (reduction of the amount of tax payables and reduced tax rate) and transport tax for the investors; as well as it has yearly report on efficiency on provided tax reliefs in the region.

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

The regional government discloses the key information about the government’s decisions, meetings and vacancies on time and 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. However, the procedure can be improved which is evidenced by the position in the 2017 rating of RIA development in Russian regions, prepared by the Ministry of economic development of the Russian Federation. Lipetsk region was attributed to the group of regions with a “good” quality of RIA implementation⁷.

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 2016 disclosed online and containing the actual information about the income and property of employees and their families. However, the efficiency of the anti-corruption policy can be improved due to the presence of corruption scandals in the region (mostly on the local level). In addition, the deepness

⁷ 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 available under the following link: <http://orv.gov.ru/Content/Item?n=27489>

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of self-declarations can be improved by adding the information on personal expenditures of administration employees, as well as on-time publication of the 2017 information.

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, moderately low share of short-term debt, moderately low deviation of the amount of budget spending in the 4Q 2017 from the average amount during 1-3Q of the year as well as by the presence of internal audit for the budget administrators⁸. However, the assessment was restrained by the lack of experience in bond issuance during the last three years (the latest issuance of bonds was performed in 2014).

Political risks are mitigated

The current governor of the region was elected for the first time in April 1998 and he was for the last time reelected in September 2014 with more than 80% of the votes. Such a long term being in power was assessed by the Agency as a risk factor according to the methodology. However, this risk is mitigated by high level of support on the recent election, absence of political conflicts in the region, as well as the position of the governor in the independent political science ranking⁹.

Moderate quality of fiscal budget planning

The quality of the fiscal budget planning in the region was limited by moderately frequent changes if the fiscal plan: the fiscal budget plan was revised six times during last year. At the same time, the region had on-time approved fiscal plan for 2017 and 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.

⁸ 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.

⁹ According to the ranking of "Petersburg Policy Fund" think tank for March 2018, the Lipetsk region was attributed to the group of regions with "high political resistance".

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Minute's summary:

The rating committee for ESG rating of the Lipetsk region was held on 15 May 2018. 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. Descriptions and definitions of all rating categories can be found under the following link: 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.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

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Office responsible for preparing the rating

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