

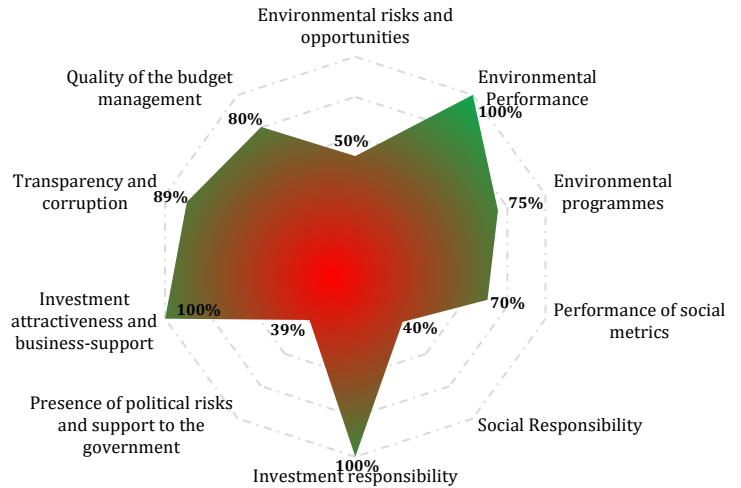
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Ratings

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

Risk map



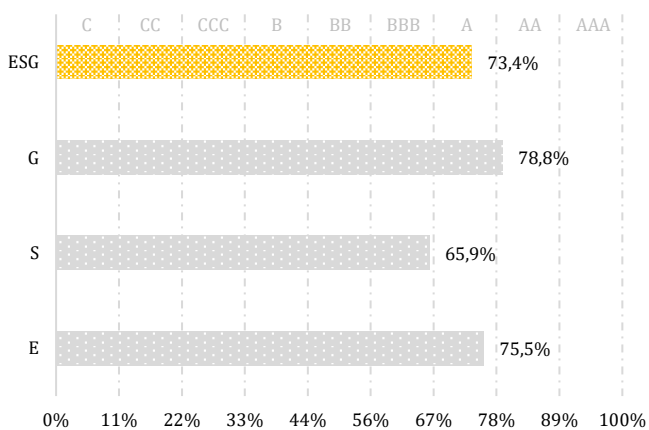
Summary

RAEX has raised the Lipetsk Region's ESG rating to A[esg], which means that the management of ESG-related risks and opportunities is at a high level. The ratings for each block are as follows: environmental rating A[e], social rating BBB[s] and corporate governance rating AA[g]. The environmental rating reflects the region's exposure to industrial environmental risks due to the presence of large industrial plants in operation, however, there is a positive trend in a number of indicators due to measures taken by the authorities and local businesses. The social rating is supported by a low poverty rate along with acceptable social expenditures per capita, high levels of public spending on health, favorable security indicators and low crime rates, as well as the presence of socially oriented PPP projects and a wide range of social programs in the region. The assessment of the quality of regional governance is supported by the low level of political risks against the background of government stability, compliance and improvement of anti-corruption procedures and business support measures, development of investment infrastructure and high quality of public finance management.

ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11,1%	50%
	Environmental programmes	11,1%	100%
	Environmental Performance	11,1%	75%
Social	Performance of social metrics	11,1%	70%
	Social Responsibility	11,1%	40%
	Investment responsibility	11,1%	100%
Governance	Presence of political risks and support to the government	8,3%	39%
	Investment attractiveness and business-support	8,3%	100%
	Transparency and corruption	8,3%	89%
	Quality of the budget management	8,3%	80%

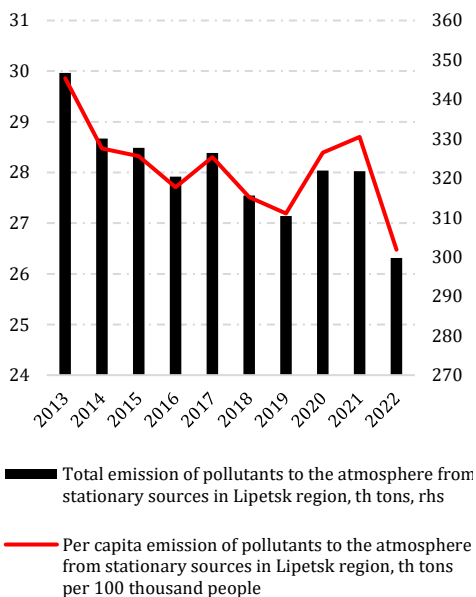
ESG score and rating per section



Environment

Sub-factor	Балл
Environmental risks	25%
Environmental opportunities	74%
Environmental policy implementation and transparency	100%
Budget expenditure and efficiency	75%

Graph 1: Industrial air emission metrics of Lipetsk region



Source: RAEX calculations based on Rosstat data

● High exposure to environmental risks remains, but there is a positive trend in a number of indicators.

The Lipetsk Region is to a certain extent exposed to some environmental threats associated with the activities of industrial enterprises in the region. The key risks remain industrial air pollution, as well as pesticide and fertilizer pollution.

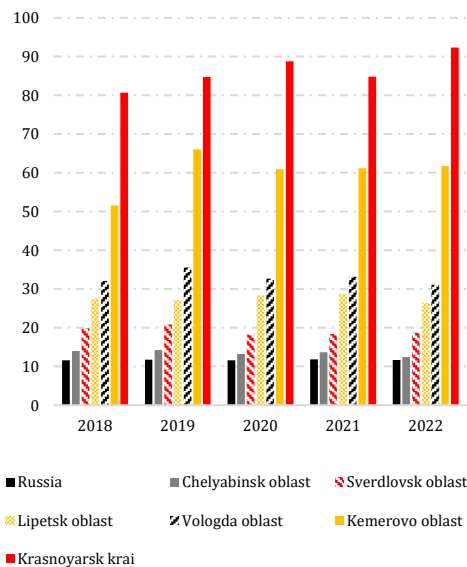
Total air pollutant emissions from stationary sources in the region in 2022 amounted to 300,000 tons compared to 322,000 tons a year earlier (see Chart 1). Emissions per capita in 2022 also decreased to 26 thousand tons per 100 thousand people, which is higher than the Russian average, but significantly lower than in a number of other industrial regions (see Chart 2). The region's authorities and businesses are actively working to mitigate this key risk.

Novolipetsk Steel (NLMK Group) remains one of the largest industrial facilities in the region. The enterprise implements a long-term environmental program, which results in a systematic reduction of air emissions per ton of steel (see Chart 3). To date, the specific air emissions of NLMK Group enterprises have been halved and are in line with the level of the best available technologies in Russia.

The share of captured and neutralized pollutants in the total volume of emissions from stationary sources decreased as compared to previous years and amounted to 75.1%, while the national average was 76.3% (see Chart 4).

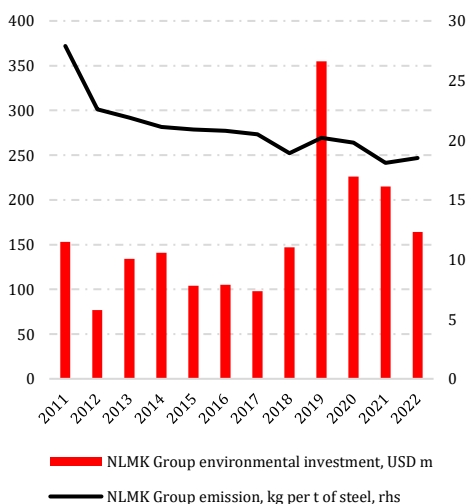
With regard to pollution by pesticides and fertilizers, it should be noted that this risk is managed. The region has been actively working on the elimination of the pesticide disposal site "Bolshiye Izbishchi", which has been implemented on the territory of the

Graph 2: Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



Source: RAEX calculations based on Rosstat data

Graph 3: NLMK Group's environmental metrics



Source: RAEX calculations based on NLMK data

region since 2015, as well as continuous monitoring in the area where this facility is located.

● **The region continues to implement comprehensive environmental programs that help reduce its environmental impact.**

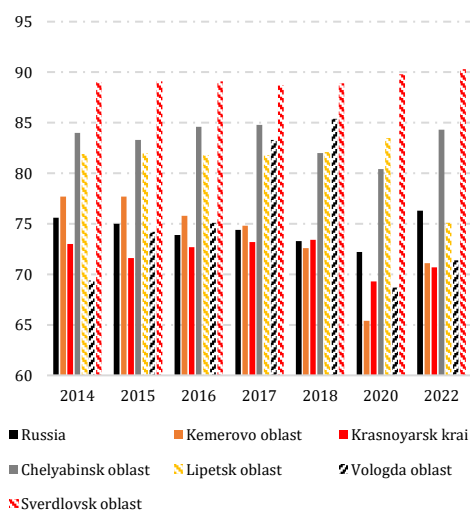
The Lipetsk Region's state program "Environmental Protection, Reproduction and Rational Use of Natural Resources of the Lipetsk Region" is being implemented in the region, covering such areas as environmental protection, protection and reproduction of wildlife, development of the water management complex and waste management.

The Administration of the Lipetsk Region within the framework of the national project "Ecology" continued the implementation of subprojects financed from the regional budget: "Clean Air", "Clean Country", "Integrated Solid Waste Management System", "Preservation of Unique Water Bodies", "Forest Conservation", and "Clean Water".

The Department of Ecology and Natural Resources of the Lipetsk Region is the body responsible for environmental policy and programs within the regional administration. The Department effectively implements the state program of the Lipetsk Region "Environmental Protection, Reproduction and Rational Use of Natural Resources of the Lipetsk Region".

In addition, in order to implement measures of the first stage of adaptation to climate change for the period until 2022, the region has assessed climate risks specific to the subject and developed a list of adaptation measures in the field of climate change. The adaptation plan includes 52 measures in

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



Source: RAEX calculations based on Rosstat data

various areas: agriculture and forestry, nature management, wildlife and aquatic biological resources protection, subsoil use, monitoring and forecasting of changes, energy efficiency and others.

Also in 2022, the regional administration approved the Climate Safety Passport of the Lipetsk Region and developed the Plan for the implementation of scientific and technical activities in the field of environmental development of the Russian Federation and climate change in the Lipetsk Region.

The regional administration pays considerable attention to the openness of environmental information. Data on the state of atmospheric air are posted daily on 315 screens at enterprises, in public transportation, and on city streets. Residents learn about the presence or absence of exceedances of maximum permissible concentrations on the official website of the Department of Ecology and Natural Resources, in telegram channels and social networks.

● Moderate level of funding for environmental protection programs

The 2022 consolidated budget expenditures under the section "Environmental Protection" per one local resident increased and amounted to 566 rubles per person against 136 rubles per person in 2021. According to the federal statistical observation form №18 "Information on investments in fixed capital aimed at environmental protection and rational use of natural resources", in the reporting year 2022, 10,445.6 million rubles of investments in fixed capital were allocated for environmental protection measures in the Lipetsk Region.

● **High level of utilization of environmental opportunities**

According to the Agency's assessment, the utilization and development of environmental opportunities in the region is at a fairly high level. The region uses technologies with a positive effect on the environment: renewable energy sources, biofuels, energy-efficient outdoor lighting and environmentally friendly fuels for public transportation.

A step-by-step modernization of the heat and power complex of Lipetsk Region facilities is being observed, and the possibility of using biogas as an alternative energy source is being considered. Solar energy is used in the organization of street lighting in the region, lighting devices are equipped with motion sensors.

NLMK Group contributes to the development of the area of utilization of secondary sources for power generation. A project to build a new 300 MW utilization power plant (UTETs-2) is currently underway.

A program of urban passenger transport renewal is effectively operating in the region. At the same time, as part of adaptation to climate change, measures are being implemented to develop a network of electric stations for car charging and construction of gas filling stations.

List of major controversies

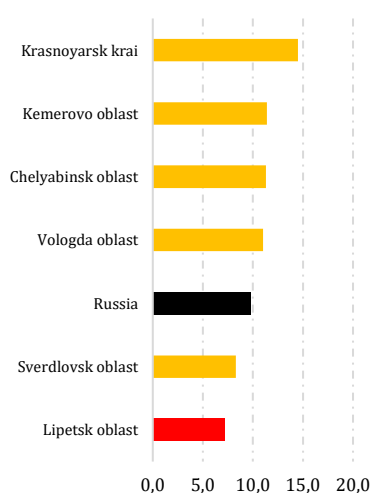
Controversy	Type of factor
No controversies were found	Environment

Source: RAEX 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.

Social

Sub-factor	Балл
Social benefits and social security functions	50%
Education	20%
Health care system	100%
Security	100%
Socially responsible industry	28%
Socially responsible programmes	59%
PPP Investment	100%

Graph 5: The share of population with a net personal income below the national minimum, %, 2022



Source: RAEX calculations based on Rosstat data

Low poverty rate along with acceptable social spending per capita

In 2022, real cash incomes of the population in the Lipetsk Region decreased by 2% relative to the level of 2021, while for the same period in Russia as a whole the reduction of this indicator amounted to 5.4%. There is an annual decrease in the share of the population with incomes below the subsistence minimum in the Lipetsk Region. At the end of 2022, this indicator decreased to its historical minimum and amounted to 7.2%, which is lower than the national average (9.8%) and lower than all peer regions (see Chart 5).

The budget expenditures on social policy per capita have a constant upward trend and have grown by 13.2% over the last 3 years. Nevertheless, the budget expenditures on social policy per capita adjusted for the cost of living in 2022 amounted to RUR 19.1 thousand and were below the average for the peer regions, which amounted to RUR 25.3 thousand. Nevertheless, this level seems to be sufficient, as a part of socially oriented expenditures is taken into account by other sections of the budget.

Low level of education indicators

According to the latest available up-to-date data from the 2020 All-Russian Census, the region is characterized by a moderate share of employed people with higher education, comparable to the national average - 29.7% against the national average of 30.3%. Regional universities are not included in the leading world and country rankings.

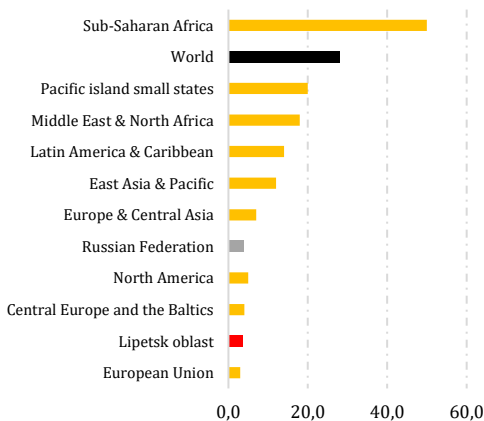
The level of education expenditures per capita also appears to be moderate and amounts to 16.7 thousand rubles against an average of 22.1 thousand rubles in the peer regions in 2022. However, the following actions can be noted as positive factors: the Lipetsk Oblast state program "Development of Education in the

Graph 6: Infant mortality rate 2022 per 1,000 live births



Source: RAEX calculations based on Rosstat data

Graph 7: Infant mortality rate 2021, infant per 1,000 live births, international comparisons



Source: RAEX calculations based on World Bank and Rosstat data

Lipetsk Oblast" is being implemented in the region, training programs for unemployed low-skilled people are being actively implemented, as well as a multi-level program to improve financial literacy of the population, which is implemented as part of the strategy to improve financial literacy in the Russian Federation in 2017-2023. In addition, the administration of the region has implemented all mandatory programs for the regional education system in accordance with the strategy to improve financial literacy in the Russian Federation for 2017-2023.

Low infant mortality rate combined with high levels of public spending on health care

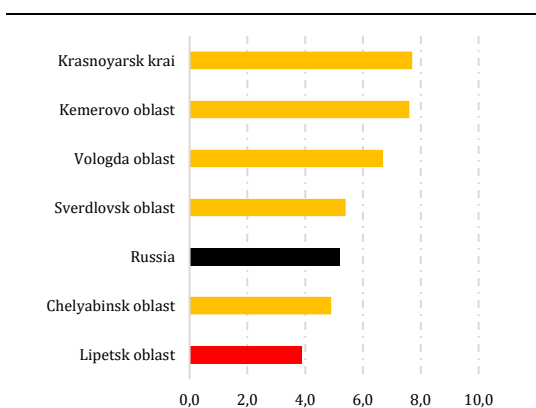
In the Lipetsk Region the infant mortality rate is minimal compared to the peer regions: 3.2 ppm in 2022 compared to an average of 4.7 ppm in other sample regions (see Chart 6), while in Russia as a whole this indicator amounted to 4.4 ppm.

The amount of health care expenditures per capita tends to grow and has increased by 25.6% over the last 3 years, amounting to 10.4 thousand rubles in 2022, which is higher than this indicator (9.2 thousand rubles) on average for the peer regions.

Low crime rates compared to the global average are complemented by acceptable levels of public spending on security in the region

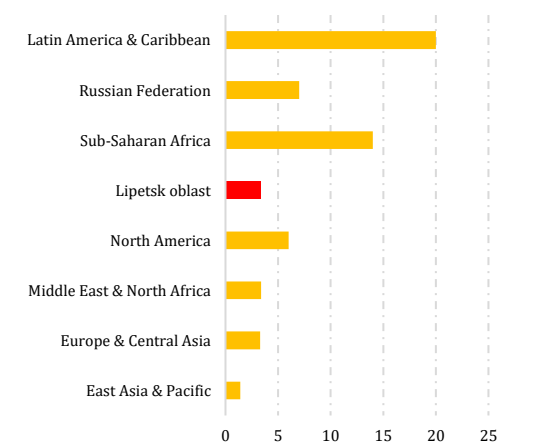
The number of homicides per 100,000 people in the Lipetsk Region in 2022 amounted to 3.9 against the national average of 5.2 (see Chart 8), which is also significantly lower than the average for all peer regions. At the same time, this indicator has been gradually decreasing over the last 3 years. Thus, since 2020, the number of murders per 100,000 people has decreased by 0.5.

Graph 8: The number of murders per 100 000 people in 2022



Source: RAEX calculations based on Rosstat data

Graph 9: The number of murders per 100 000 people in 2021, international comparisons



Source: RAEX calculations based on World Bank and Rosstat data

Total per capita security budget expenditures in the region adjusted for the cost of living in 2022 amounted to 10.4 thousand rubles. The Agency assesses this level of expenditures as high, as the average indicator for all Russian peer regions in 2022 amounted to RUB 9.2 thousand.

● Availability of socially oriented PPP projects and various social programs

According to the results of the final integral assessment of all factors in the rating of public-private partnership (PPP) development in the constituent entities of the Russian Federation in 2022, the Lipetsk Region ranked 12th. Compared to 2021, the region moved up 42 places in the ranking, which is one of the highest improvement indicators in relation to the last year's position among other constituent entities of the Russian Federation (in 2021, the Lipetsk Region was in 54th place).

The total amount of private investments attracted in PPP projects in the Lipetsk Region amounted to RUB 34,906 mln. In addition, the region implements programs for the development and modernization of municipal infrastructure, such as construction of schools, creation and reconstruction of water supply and wastewater disposal systems, as well as transport infrastructure facilities, etc.

In addition, in 2023, 100 million rubles is planned in the region's budget for initiative projects for the implementation of activities that are of prior importance for the residents of the municipality or its part, to address issues of local importance or other issues, the right to address which is granted to local governments.

● Prioritizing socially responsible industries and limiting controversial industries

The region has developed the Lipetsk Region Socio-Economic Development Strategy until 2030, the key priority of which is long-term

sustainable development of the region, well-being of the population and improvement of the quality of life. As part of the implementation of the Regional Investment Standard 2.0, an Investment Declaration was developed, which is one of the tracks within the framework of investment support in the region. The document contains a description of investment development goals and priorities, key characteristics and advantages of the region, and a description of the regional infrastructure for investors. The Lipetsk Region Investment Development Agency has a "one-stop shop" to support and assist investment projects.

In addition, laws are in place that impose restrictions on controversial industries such as alcoholic beverages and drug use. In addition, a large number of incentives are provided for socially responsible industries. In particular, a reduced tax rate and a simplified tax system are applied for industries such as education, care for the elderly, sports, agriculture and dairy products. In addition, the owners of electric vehicles are exempted from paying tax, programs to protect the environment, improve water quality and develop the urban environment are subsidized, and the latest waste management practices are implemented. The Agency expects that the practical application of these principles in the medium term will continue to favorably affect the development of socially responsible industries in the region.

List of major controversies

Controversy	Type of factor
No controversies were found	Social

Source: RAEX 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.

Governance

Sub-factor	Score
Stability of the government	39%
Support to the government	
Investment attractiveness / business-climate	100%
Industrial parks and free economic zones	100%
Transparency of the regional government in the Internet	76%
Regulatory Impact Assessment (RIA) practices OR Similar practices	100%
Anti-corruption commission / department in the regional administration	78%
Characteristics of self-declarations of the employees of administration bodies	90%
Quality of the fiscal budget planning	43%
Quality of the fiscal budget execution	100%
Quality of the debt management	100%
Tax deductions and credits	50%

● Low level of political risks backs up the government stability

The Agency notes a moderate level of political risks in the region, which is due to the absence of active public political conflicts in the region.

The incumbent governor of the Lipetsk region remains Artamonov Igor Georgievich, who was appointed acting head of the regional government in 2018, and was elected in public elections in September 2019, gaining 67.3% of votes with a voter turnout of 41.2%. His current term expires in 2024.

In the 2021 State Duma elections, the region elected 3 deputies, all representatives of United Russia. A representative of United Russia also won the by-election for the State Duma in 2023. The heads of local self-government bodies are being systematically renewed.

There have been no political conflicts between different branches of government, including between regional and local authorities, in the Lipetsk Region.

● The region's investment infrastructure and business support measures were highly appreciated

The aggregate assessment of the factor "Investment attractiveness and business support" is at a high level, which is due to the presence of a developed investment infrastructure in the region, represented by existing industrial parks, industrial technoparks, regional special economic zones, as well as the special economic zone of the federal level - industrial production type zone "Lipetsk".

In the Lipetsk Region, a large number of tax benefits in the form of a reduced rate of corporate profit tax, as well as exemption from corporate property tax and transport tax have been established for residents of the federal special economic zone "Lipetsk", participants of regional investment projects, residents of industrial parks, organizations-winners of the investment projects competition, organizations implementing innovative projects, as well as participants of special investment contracts.

At the same time, the region annually assesses the effectiveness of the tax benefits provided.

● **Moderate level of transparency of regional authorities and developed regulatory impact assessment procedures**

The regional administration discloses up-to-date information on government decisions, meetings and vacancies on official websites. Nevertheless, the official website of the Lipetsk Oblast administration has a decentralized system: separate pages have been developed for most departments, but links to them are not accumulated on the general official Internet portal of the administration. The evaluation was also negatively affected by the lack of adaptation of the official website of the administration in any languages other than Russian.

According to the results of the Rating of the quality of ODS, OVF and expertise in the subjects of the Russian Federation according to the version of the Ministry of Economic Development of Russia in 2022, the Lipetsk region strengthened its position in the group of leading regions, entering the top 15 regions of the country. For the fifth year in a row (starting from 2018), the region continues to remain among the best subjects of the Russian Federation in this rating. State Secretary - Deputy Minister of Economic Development of the Russian Federation A.I. Khersontsev separately noted the achievements in the field of ODS of the Lipetsk region. The fact that from 2023 the ODS procedure became mandatory for all 20 municipalities of the region was also positively reflected in the assessment.

For regulatory impact assessment, the regional administration has created official pages in social networks, and information about the regulatory impact assessment procedures is regularly published on official messenger channels. In addition, since 2023, information on the ODS procedure is also posted through the city media screens.

Moderately high assessment of anti-corruption procedures and anti-corruption measures implemented in the region

The Agency positively assesses the anti-corruption measures implemented by the regional anti-corruption coordination commission. In the period 2020-2022, regular meetings of the Commission considered issues related to the organization of anti-corruption work in the region and improving its effectiveness. Among other things, a declaration of conflict of interest was approved for persons applying for the relevant positions of the regional civil service, the commission meetings systematically considered issues on the state of organization of work on prevention of corruption offences in the municipal districts of the region, updated corruption risk maps, as well as conducted explanatory and educational work for civil servants and the public.

All divisions of the administration published declarations for 2022, disclosed on the official Internet portal of the Lipetsk Region Administration and containing up-to-date information on income and property of the administration employees and their family members.

According to the Prosecutor's Office of the Lipetsk Region, 241 (+35.4%) crimes of corruption were detected in 2022, the share of which in the total number of registered crimes amounted to 1.7%. The number of crimes under Article 290 of the Criminal Code of the Russian Federation (bribery) increased by 36.8% and amounted to 26 (19 in 2021). The number of crimes under Article 291 of the Criminal Code of the Russian Federation (bribery) did not change and amounted to 33 (33 in 2021).

Moderately high quality of budget execution and debt management in 2022

The Agency notes the proper quality of budget and debt management in the region in 2020-2022. The assessment of the quality of budget execution and debt management in the Lipetsk Region is supported by the timely and complete fulfillment of all debt

obligations of the Lipetsk Region over the last three years, the availability of internal audit of the main managers of budgetary funds, as well as the experience of bond issuance in the local financial markets.

In 2022, the Lipetsk Region showed a small difference between the planned budget revenues and expenditures compared to the executed ones (less than 10% for the expenditure item and about 12% for the revenue item) and ended the year with a minor budget deficit. As of 01.03.2023 there are no short-term debt obligations in the region. All priority expenditures of the regional budget, including labor remuneration and social payments, were also financed in full in due time.

The Lipetsk Region's government bonded loans are currently outstanding: in 2019-2020, the Lipetsk Region issued government bonds in the form of "documentary bearer securities" with a fixed coupon rate of 6.6% and 5.8% per annum (2019 and 2020, respectively), totaling RUB 2.5 billion per annum.

List of major controversies

Controversy	Type of factor
No controversies were found	Governance

Source: RAEX 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.