

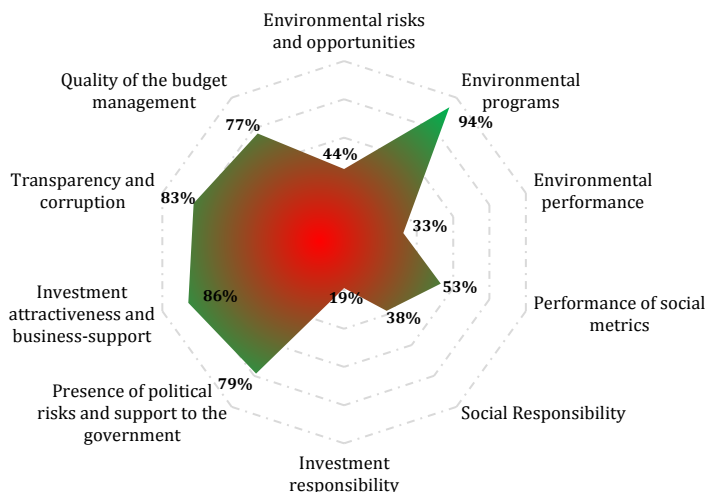
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Risk map



Ratings

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

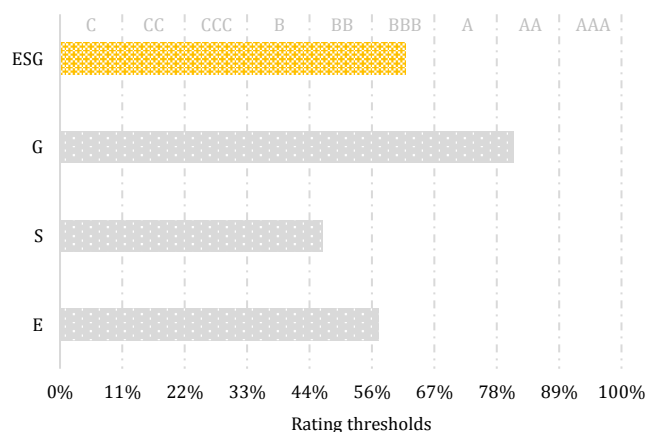
Summary

Rating-Agentur Expert RA assigned BBB[esg] ESG rating to the Tambov region, which means that the management of ESG related risks and opportunities is moderately high. The ratings of each section are as follows: BBB[e] environmental rating, BB [s] social rating and AA[g] governance rating. The region exposed to different environmental risks, these risks are partly mitigated by the actions of the authorities and local business. Tambov 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 and PPP projects 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%	44%
	Environmental programmes	11,1%	94%
	Environmental performance	11,1%	33%
Social	Performance of social metrics	11,1%	53%
	Social responsibility	11,1%	38%
	Investment responsibility	11,1%	19%
Governance	Presence of political risks and support to the government	8,3%	79%
	Investment attractiveness and business-support	8,3%	86%
	Transparency and corruption	8,3%	83%
	Quality of the budget management	8,3%	77%

ESG score and rating per section



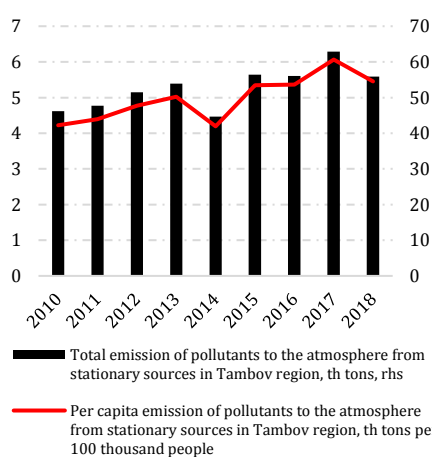
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Environment

Sub-factor	Score
Environmental risks	37%
Environmental opportunities	49%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	33%

Graph 1: Industrial air emission metrics of Tambov region



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

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 use of natural resources of the Tambov region*” that covers all key environmental risks of the region. In addition, there are following programs: “*Energy conservation and energy efficiency in the Tambov region*”, “*Industrial development and competitiveness*”, “*Regional program of the Tambov region for waste management, including municipal solid waste for 2017-2026.*” The Program is available on the website of the **Department of Environmental Protection and Nature Management of the region**, which is the key governance body responsible for the environmental policy. However, the Report on the Program has not been disclosed for last years, which slightly restrict the assessment of the factor.

Moderate level of involvement in environmental opportunities

The region uses a limited number of environmental opportunities, such as energy efficient street lightning (i.e. LED lights); public transportation (i.e. vehicles complying with TIER or EUR emission standard), energy efficient public building, while other environmental opportunities such as wind power or hydroelectricity are also available.

Moderately low level of environmental protection programs financing

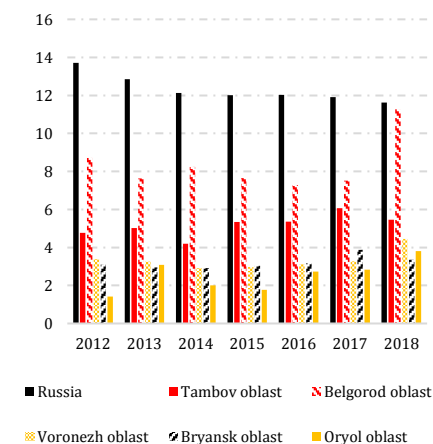
The share of budget expenditures for financing environmental programs “*Environmental protection, reproduction and use of natural resources of the Tambov region*” and “*Forestry development in the Tambov region*” in the total expenditure of the regional budget of 2018 was only 0,7%. Moreover, per capita expenditures of the 2018 consolidated budget in the section “*Environmental protection*” were only RUB 120 per person as compared to RUB 280 per person on average for all Russian regions. In addition, the region has limited involvement in internationally recognized environmental programs.

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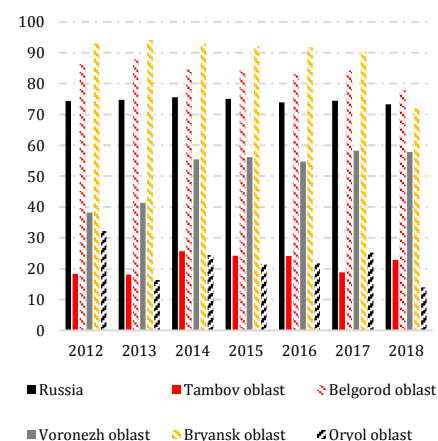
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Graph 2: Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



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

Graph 3: 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

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 Tambov region, Ministry of finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

Moderate level of exposure to environmental risks combined with limited mitigation effectiveness

The Tambov oblast is exposed to various environmental threats, including soil degradation, fertilizers’ pollution, air pollution, industrial waste disposal, floods and fires, etc.

The region occupied the 52nd place by total emission of pollutants to the atmosphere from stationary sources with 55,9 th tons of overall emissions, while per capita emissions stood at 5,5 th tons (49th place), which is around 50% of the country’s average metric (see Graphs 1-2).

The main resource of the air pollution and other industrial-related environmental risk is “**Pigment**” chemical factory. 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 factory itself. In particular, in order to mitigate accumulated environmental damage, in 2018 the construction of new “*closed wastewater storage facility*” was started at the factory. Five old wastewater storage facilities are currently decommissioned. Commissioning of the new facility is scheduled for 2020.

However, the efficiency of the mitigation actions can be considered as limited, since total and per capita emission was growing over the last 5 years. In addition, the share of captured and detoxified air pollutants in the total volume of departures from stationary sources in Tambov region is low *as compared to the national peers* (23% against 74,4% country average) (see Graphs 2 and 3).

The risks related to the agricultural industry 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.

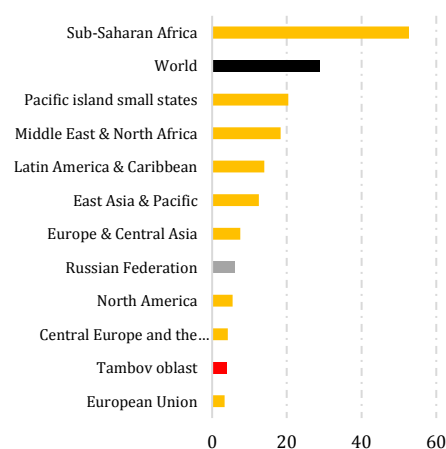
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Social

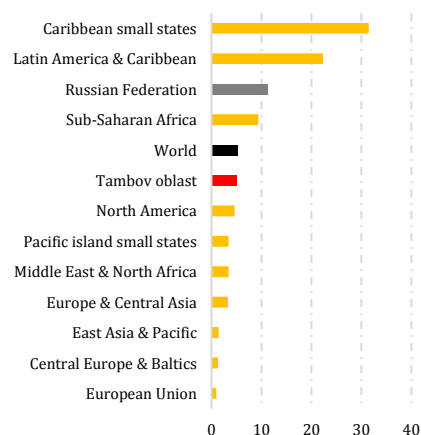
Sub-factor	Score
Social benefits and social security functions	75%
Education	30%
Health care system	63%
Security	41%
Socially responsible industry	53%
Socially responsible programmes	12%
PPP Investment	19%

Graph 4: Infant mortality rate 2018, infant per 1,000 live births



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

Graph 5: The number of murders per 100 000 people in 2015



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

¹ "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)".

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 standard was 10% in 2018 (70th place), while average for all Russian regions is 13% for the same period. Even though we observed that total budget expenditures on social support per capita adjusted by the local cost of living at RUB 13,4 th (51th 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.

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

Tambov region has a moderately low level of infant mortality rate as compared to international levels: 3,9 pro mille in the oblast in 2018 as compared to 28,9 pro mille in the World (see Graph 4), while the national level stood at 6,1 pro mille (according to World Bank data). However, the region occupied only 71st place by total amount of spending on the health care system per capita in 2018 (adjusted for the cost of living): RUB 2,6 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* (27,6% against 33,6% for the country's average in 2018). However the amount of spending on education per capita (RUB 16,2 th; 56th place) below the country average of RUB 20,5 th in 2018.

The authorities has all obligatory programs for the regional education systems according to the Russian regulation in place. However, there is 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 people¹ in the Tambov region stood at 5,1 in 2015 as compared to a world average of 5,3 (the latest data available) (see Graph 5), to 1 in the EU and to 11 in the Russian Federation in average. However, in 2018 this indicator stood at 5,3 as compared to a 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 500 (64th place), while the average figure for all Russian regions was RUB 950 in 2018.

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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 some controversial industries.

Lack of social oriented PPP-projects and socially responsible programs

The region’s socially responsible programs are mostly focused on the housing programs and different programs for support of the families and children, while other types of social programs were not declared by the region. In addition, there are lack of social oriented PPP-projects.

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 Tambov 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	82%
Support to the government	75%
Investment attractiveness / business-climate	100%
Industrial parks and free economic zones	67%
Transparency of the regional government in the Internet Regulatory Impact Assessment (RIA) practices OR Similar practices	100%
Anti-corruption commission / department in the regional administration	68%
Characteristics of self-declarations of the employees of administration bodies	80%
Quality of the fiscal budget planning	43%
Quality of the fiscal budget execution	75%
Quality of the debt management	100%
Tax deductions and credits	100%

High level of investment attractiveness combined with a presence of 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, Tambov region was attributed to the group 3A1 (reduced potential - minimal risk), and occupied the 8th 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 functioning industrial parks in the region - “Kotovsk” and “Uvarovo”. There are no federal special economic zones in the region, however there is a so called “territory of advanced social and economic development” located in city Kotovsk. 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. It also publishes a yearly report in regard to the efficiency on the provided tax reliefs in the region.

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*), additional languages 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 Tambov region was attributed to the group of regions with the “**highest level**” of RIA implementation², 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

There is a commission for the coordination of anti-corruption activities in the Tambov oblast, conducting meetings at least every quarter. However, there are no minutes publically disclosed, as well as no reports for previous years (only 1H 2019 is publically available). All public bodies of the government have self-declarations for 2018 disclosed online and containing the actual information about the income and property of employees and their families. However, the efficiency of the anti-

² 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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corruption policy can be improved due to the presence of corruption scandals in the region.

Moderately high quality of fiscal budget execution and debt management

The quality of fiscal budget execution and debt management in the Tambov region was supported by the absence of overdue accounts payable and overdue debt over the last years, presence of internal audit for the budget administrators³, as well as experience in issuing bonds on the local financial markets. From 2016, the Tambov region started issuing government bonds with maturities from 7 to 8 years (with total outstanding volume of RUB 8,1 bn as of November 2019). The share of government bonds in the structure of regional debt was 48% as of November 2019. At the same time, the volume of expenditures of the regional budget in the 4Q 2018 exceeded the average metrics for 1-3Q by around 20% (net of expresses conducted with the targeted transfers from the federal budget).

Moderately low level of political risks

The current governor of the region was assigned by the President of the Russian Federation on 25 May 2015 as an acting Head of the Regional Admiration and then he was elected in September 2015 at the public elections with 85,5% of the votes. His current term is expiring in 2020, which is considered as moderate risk factor according the Methodology. The local parliament elections was in 2016 (the latest elections in the region). The political party, supported by the governor, won the elections with 62,25% votes, which we can consider as support factor for the assessment. Political risks are also partly 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 moderate⁴.

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 budget plan was revised **five times** during last year. The quality of the budget planning was also negatively affected by the presence of liquidity gaps during 2018. At the same time, the quality of the budget was supported by the moderately low difference between the planned budget revenues and expenditures for 2018 as compared to the executed.

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 Tambov region, Ministry of finance of the Russian Federation, Ministry of economic development of the Russian Federation, public sources of information.

³ 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.

⁴ According to the ranking of "Petersburg Policy Fund" think tank for October 2019, the Tambov region was attributed to the group of regions with "moderate political resistance": <https://fpp.spb.ru/fpp-rating-2019-10>

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Minute's summary:

The rating committee for ESG rating of the Tambov region was held on 13 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. 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 Tambov 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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Office responsible for preparing the rating

The office responsible for the preparation and issuance of this rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

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