



**RAVEN RUSSIA LIMITED**

**Raven Russia Limited  
Risk Report**

Extracted from the 2016 Annual Report

# RISK REPORT

## **Risk Appetite**

The risks facing the business have been at the top of the Board's agenda over the last 24 months and have necessitated rapid changes in our approach.

Our risk profile fundamentally remains the same. We invest in a lower risk asset class with historic structural undersupply in a higher risk jurisdiction. As explained in last year's Annual Report, external events meant that our market moved from income streams pegged to the US Dollar to Rouble denominated contracts. In a weak Rouble environment, this can mean progressively lower US Dollar income as current leases mature and are renewed on market terms.

The first nine months of this year were focussed on restructuring the Group balance sheet to support the market changes whilst maintaining occupancy levels in the existing portfolio. With this achieved we are now focussed on rebuilding our Net Operating Income through the acquisition of market rented assets or build to suit development projects. Therefore after two years of a defensive position our risk appetite is once again aligned to supporting growth.

## **Risk Management and Internal Controls**

The business is of a size and culture where risks are discussed and reviewed, formally and informally, at all levels. The Board is responsible for the management of risk and regularly carries out a robust assessment of the principal risks and uncertainties affecting the business, discusses how these impact operations, performance and solvency and what mitigating actions, if any, can be taken. Executive Board members are actively involved in all day to day operational and decision making processes of the business.

The Audit Committee is responsible for ensuring that the internal control procedures are robust and that risk management processes are appropriate. A fuller explanation of the processes is given in the Audit Committee Report.

At an operational level, weekly meetings are held with the eight heads of department, the two members of Senior Management and two Executive Board members to discuss all business matters including the risk environment. A sub committee of seven of this group including the two Executive Board members, together with the Company Secretary, form a separate Risk Committee which meets bi-monthly to formally review the Group and Company's risk profile and reports to the Audit Committee twice a year.

The Audit Committee has not identified any significant failings or weaknesses in the internal control and risk assessment procedures during the year. The introduction of a formal property database management system will be completed early in the second quarter of this year and our financial reporting has adapted to run a three year profile of our contracted Net Operating Income which is updated on a weekly basis.

## **Principal Risks and Uncertainties**

We have set out in the following table the principal risks and uncertainties that face our business, our view on how those risks have changed during the year and a description of how we mitigate or manage those risks. We have also annotated those risks that have been considered as part of the viability assessment.

There are no significant changes in the principal risks supported by the sustained period of higher oil prices and stronger Rouble.

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## Financial Risk

Risk	Impact	Mitigation	Change
<p><b>Oil price and Foreign Exchange</b> </p> <p>Oil price volatility returns in the medium term leading to a weakening Rouble.</p>	<p>This leads to further falls in US Dollar equivalent income and an increase in the credit risk of those tenants who remain in US Dollar pegged leases.</p> <p>Reduced consumer demand reduces appetite for new lettings, renewal of existing leases and restricts rental growth.</p>	<p>While the majority of new leases now being signed are Rouble denominated with Russian inflationary indexation, we still have a high proportion of US Dollar pegged rents.</p> <p>The logistics market continues to be undersupplied at current levels of consumer demand. A lack of projected investment in new projects has led to market reports forecasting that vacancy levels will remain low.</p>	
<p><b>Interest rates</b> </p> <p>Increases in US LIBOR</p>	<p>Cost of debt increases and Group profitability and debt service cover reduce.</p>	<p>The majority of our variable cost of debt is hedged with the use of swaps and caps on US LIBOR or fixed rate facilities.</p>	
<p><b>Bank covenants</b> </p> <p>The significant drop in market rents impacts on both loan to value ("LTV") and debt service cover ratio ("DSCR") covenants.</p>	<p>The likelihood of debt facility covenant breaches increases.</p>	<p>We have part prepaid secured, amortising debt facilities during the year, increasing covenant headroom.</p> <p>There is very little recourse to the holding company and no cross collateralisation between projects on events of default.</p>	

## Property Investment

Risk	Impact	Mitigation	Change
<p><b>Acquisitions</b></p> <p>Immature investment market where legacy issues are common with Russian acquisitions.</p>	<p>Where acquisitions are possible, legacy issues may erode earnings enhancement and integration into our existing systems may involve excessive management resource.</p>	<p>We have an internal management team with both international and Russian experience allowing possible legacy and integration issues to be identified prior to acquisition; and</p> <p>External advisers undertake full detailed due diligence.</p>	

## Russian Domestic Risk

Risk	Impact	Mitigation	Change
<p><b>Legal framework</b></p> <p>The legal framework in Russia is in the early stages of its development.</p> <p>This could encourage tenants to attack lease terms where they now perceive those to be unfavourable.</p>	<p>The large volume of new legislation from various state bodies is open to interpretation, puts strain on the judicial system and can be open to abuse.</p> <p>Increased litigation on existing leases in an attempt to renegotiate US Dollar denominated leases or seek early termination of contracts.</p>	<p>We have an experienced in house legal team including a litigation specialist. We use a variety of external legal advisors when appropriate.</p> <p>Our lease agreements have been challenged and have proven to be robust in both ICAC arbitration and in Russian Courts.</p>	
<p><b>Russian taxation</b></p> <p>Russian tax code is changing in line with global taxation trends in areas such as transfer pricing and capital gains tax.</p>	<p>Tax treaties may be renegotiated and new legislation may increase the Group's tax expense.</p>	<p>The key tax treaty for the Group is with Cyprus and this was renegotiated between the two countries during 2013 with no significant impact on the business;</p> <p>Changes in capital gains tax rules have led to a change in our calculation of Adjusted Diluted NAV per share; and</p> <p>Russia remains a relatively low tax jurisdiction with 20% Corporation tax.</p>	

## Personnel Risks

Risk	Impact	Mitigation	Change
<p><b>Key personnel</b></p> <p>Failing to retain key personnel.</p>	<p>Strategy becomes more difficult to flex or implement.</p>	<p>The Remuneration Committee and Executives review remuneration packages against comparable market information;</p> <p>Employees have regular appraisals and documented development plans and targets; and</p> <p>A new incentive scheme was approved at the last AGM with a focus on retention.</p>	

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## Political and Economic Risk

Risk	Impact	Mitigation	Change
<p><b>Ukraine and sanctions</b></p> <p>The Minsk agreement is not implemented satisfactorily and sanctions against Russia remain in place for the foreseeable future and are potentially increased.</p>	<p>Continued isolation of Russia from international markets and exacerbation of the slow down in the Russian economy.</p>	<p>It is difficult to mitigate against the worst case scenario if escalation were to close Russia's borders to Western markets. However, we have:</p> <ul style="list-style-type: none"> <li>- Maximised cash reserves at holding company level;</li> <li>- An organisational structure that would allow us to continue to operate the Russian business autonomously if necessary; and</li> <li>- A special purpose vehicle ("SPV") structure that protects the holding company assets (principally cash) in a worst case scenario.</li> </ul> <p>With political events in the West, following Brexit and the US elections and with upcoming elections in other EU countries, market sentiment has, for the time being at least, improved towards Russia.</p>	

### Change Key

 Viability statement risk

 Increased risk in the period

 Stable risk in the period

 Decreased risk in the period



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