RAVEN RUSSIA LIMITED

Raven Russia Limited
Risk Report

Extracted from the 2017 Annual Report

RISK REPORT

Risk Appetite

The Group continues to adapt its balance sheet to meet the risks of the market in which we operate. The key financial risks continue to be foreign exchange driven, our income model now predominantly Rouble based but our financing US Dollar and Sterling based. Our approach is threefold:

- In the short term we have reduced our amortising US Dollar debt facilities and extended the period of amortisation to build in sufficient covenant headroom to manage adverse foreign exchange movements;
- We have embarked on an acquisition strategy to build our Rouble income streams as our US Dollar pegged income continues to decline; and
- With Russian Central Bank rates reducing, we expect all new and maturing financing facilities to have an increasing proportion of Rouble denominated debt, reducing our exposure to US Dollar financing over the medium term.

With a certain stability returning to the Russian market in 2017, our risk appetite has increased as we seek income enhancing acquisition opportunities.

Risk Management and Internal Controls

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 may impact on operations, performance and solvency and what mitigating actions, if any, can be taken. 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.

The business recruited additional senior managers in both our Cyprus and Moscow offices this year. Together with our acquisition and growth plans it became evident that the current operational review structure would become less effective with the increased senior team. Each department now holds its own weekly meeting to review risks and issues and reports to an operational oversight Group of eight members comprising two executive directors, two directors of the intermediate Cypriot holding board and four senior managers. This group also meets weekly. At least one of the oversight Group sits on each departmental committee. Departmental meetings cover the day to day operating issues and refer key issues to the oversight Group where appropriate. The oversight Group also discusses business wide issues and risks and reports into the Executive Board at the formal bi monthly Board meetings. With the addition of the Company Secretary, the oversight Board also acts as the Risk Committee, reporting to the Audit Committee.

The risk management process is designed to identify, evaluate and mitigate any significant risk the Group faces. The process aims to manage rather than eliminate risks and can only provide reasonable and not absolute assurance.

The Audit Committee has not identified any significant failings or weaknesses in the internal control and risk assessment procedures during the year.

Principal Risks and Uncertainties

We have set out in the following tables 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.

Financial Risk

Risk	Impact	Mitigation	Change in 2017
Oil price V Oil price volatility returns in the medium term leading to a weakening Rouble.	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. Reduced consumer demand has an impact on appetite for new lettings, the renewal of existing leases and restricts rental growth.	The percentage of US Dollar pegged leases continues to decline now the market is predominately Rouble based. With little or no speculative development in the market, research continues to forecast a drop in vacancy level.	→
Interest rates V Increases in US LIBOR.	Cost of debt increases and Group profitability and debt service cover reduce.	The majority of our variable cost of debt is hedged with the use of swaps and caps on US LIBOR or fixed rate facilities. With Russian Central Bank Rates now falling we are also considering moving away from US Dollar debt in the medium term.	→
Foreign exchange V The move to a Rouble denominated rental market increases foreign exchange risk as our debt and capital bases are US Dollar and Sterling denominated respectively.	A weakening of the Rouble against those currencies reduces our ability to service US Dollar debt, Sterling preference share coupon and Sterling distributions.	The high yield that we generate on assets has cushioned the impact of severe Rouble depreciation. Our acquisition strategy is also allowing us to re-build our profitability with Rouble denominated market rental income. The intention is for all new and maturing bank facilities to have an increasing element of Rouble denominated funding to reduce our US Dollar exposure over the medium term.	↑
Bank covenants V The significant drop in US Dollar equivalent rents impacts on both loan to value ("LTV") and debt service cover ratio ("DSCR") covenants on US Dollar debt facilities.	The likelihood of debt facility covenant breaches increases.	We have completed a restructuring of debt facilities, extending amortisation periods and reducing the principal outstanding to create additional covenant headroom. There is very little recourse to the holding company and other than the new office portfolio acquisition, no cross collateralisation between projects on events of default.	↓

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Property Investment

Risk	Impact	Mitigation	Change in 2017
Acquisitions V Our acquisition activity has increased significantly and we operate in an immature investment market where legacy issues are common with Russian acquisitions.	Legacy issues may erode earnings enhancement and integration into our existing systems may involve excessive management resource.	We have increased our senior management resource in the year with both international and Russian experience in real estate acquisitions. External advisers undertake full detailed due diligence on any acquisition projects.	↑
Sector focus Investment is made in new real estate sectors (such as office and retail).	Lack of experience in the new sectors may increase acquisition risks and lead to higher transaction costs and use of excessive management resource.	We have recruited management resource with the appropriate expertise and are familiar with the external advisors specialising in those sectors.	↑
Leases V Market practice increasingly incorporates lease break requirements and landlord fit-out obligations.	This can lead to uncertainty of annualised income due to lease break clauses. Additional landlord risk on delivery of tenant fit-out requirements.	Proactive property management and continued open dialogue with tenants. Dedicated resources assigned to fit-out obligations under leases, project management and management oversight.	↑
Joint ventures Growth plans could include entering into joint venture arrangements in certain parts of the business.	This could lead to reliance on third parties to help deliver business outcomes.	Any joint venture will be governed by a joint venture agreement and each joint venture party will be required to sign up to Raven Russia's code of conduct. Senior management resource has been enhanced to ensure proper oversight and experience of any joint venture arrangements entered into.	**NEW**

RISK REPORT

Russian Domestic Risk

Risk	Impact	Mitigation	Change in 2017
Legal framework The legal framework in Russia continues to develop with a number of new and proposed laws expected to come into force in the near future.	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.	We have an experienced in-house legal team including a litigation specialist. We use a variety of external legal advisors when appropriate. Our lease agreements have been challenged and have proven to be robust in both ICAC arbitration and in Russian Courts.	
Russian taxation Russian tax code is changing in line with global taxation trends in areas such as transfer pricing and capital gains tax.	Tax treaties may be renegotiated and new legislation may increase the Group's tax expense.	The key tax treaty for the Group is between Russia and Cyprus and this was renegotiated during 2013 with no significant impact on the business; Changes in capital gains tax rules have led to a change in our calculation of Adjusted Diluted NAV per share; and Russia remains a relatively low tax jurisdiction with 20% Corporation tax.	

Personnel Risks

Risk	Impact	Mitigation	Change in 2017
Key personnel Failing to retain key personnel.	Strategy becomes more difficult to flex or implement.	The Remuneration Committee and Executives review remuneration packages against comparable market information; Employees have regular appraisals and documented development plans and targets; and A new incentive scheme was approved at the last AGM.	

Political and Economic Risk

Risk	Impact	Mitigation	Change in 2017
Sanctions The use of economic sanctions by the US and EU continues for the foreseeable future.	Continued isolation of Russia from international markets and a return to a declining Russian economy.	The local market has accepted the inevitability of long term economic sanctions and this has played its part in the fundamental changes to the Russian economy. We have adapted our business model to secure our position in the market. However, the risk of increased sanctions remains.	

Change Key

V Viability statement risk

Increased risk in the period

Stable risk in the period

Decreased risk in the period

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