EDISON

Raven Russia

FY17 results

Strong results with improving outlook

Real estate

The Russian economy returned to growth in 2017 and the FX market was relatively calm, creating the conditions for a significant improvement in the warehouse market supply-demand balance, with rents stabilising. Against this backdrop, Raven produced strong headline earnings, including land sale gains, and a solid underlying performance, including a first benefit from 2017 accretive acquisitions. Although not reflected in our forecast, further acquisitions are likely, funded by existing cash resources, with the potential to more than offset rent reversion to market levels and return the company to growth.

Year end	NOI* ($m)	PAT** ($m)	EPS** (c)	DPS (p)	Adj NAV***/ share (p)	Yield (%)	P/adj NAV (x)
12/16	151.7	47.1	6.81	2.5	52	5.8	0.83
12/17	166.7	56.8	7.41	4.0	60	9.3	0.72
12/18e	154.6	32.6	4.92	3.0	62	7.0	0.70
12/19e	150.1	29.9	4.78	3.0	64	7.0	0.68

Note: *NOI is net operating income. **PAT and EPS (fully diluted) are underlying, excluding valuation movements, depreciation, share-based payments and exceptional items. ***NAV is underlying and fully diluted, excluding goodwill, deferred tax on valuation gains, fair value movements on derivative contracts and cumulative FX movements on preference shares. EPS and NAV assume convertible preference share conversion.

Positive earnings and distribution

Profit after tax of $56.8m (2016: $47.1m), on the company's underlying basis, positively surprised. A lower FX gain was more than offset by realised gains on non-core legacy UK land holdings, adding c $20m. Excluding this, underlying earnings were broadly as we had expected, with warehouse occupancy at a similar level (81% vs 80%) and much of the negative rent reversion (to lower, rouble-denominated market rents) offset by a part-year $10m contribution from acquisitions. RosLogistics continues to show good growth. The investment portfolio saw positive revaluation of $38.2m with a benefit to NAV per share (80c fully diluted or c 60p at year end). Raven will make a 3p final distribution (4p for the year vs 2.5p) by way of a tender offer buyback, the increase reflecting management confidence in the outlook as well as the land sale gains.

Significant acquisition upside, not in forecast

The cash balance remains strong ($266.7m at end-2017) providing resources for further accretive acquisitions; we estimate c $300m in asset purchases on a geared basis which, at an 11% yield, has the potential to lift our forecast 2019 earnings and cash flow by 35% on an annualised basis.

Valuation: Ord shares offer yield and capital potential

Raven investors have three share classes (in addition to warrants) from which to choose. The preference (RUSP) and convertible preference (RUSC) shares yield 8.2% and 5.4%, respectively. The 2017 yield on the ordinary shares is more than 9%, and 7.0% in 2018 assuming a lower distribution excluding realisation gains. The ordinary shares will benefit fully from any NAV growth or narrowing of the 30% discount to FY18e NAV/share.

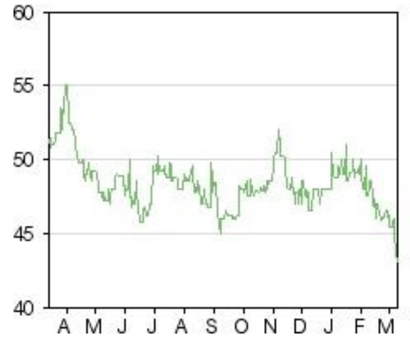
12 March 2018

Price	**43.10p**
Market cap	**£285m**

US$1.3550/£, RUB60/$

Net debt ($m) at 31 December 2017	996
Shares in issue	660.6m
Free float	90%
Code	RUS
Primary exchange	LSE
Secondary exchange	TISEA

Share price performance



%	1m	3m	12m
Abs	(11.1)	(7.3)	(15.5)
Rel (local)	(13.2)	(5.7)	(15.7)
52-week high/low		55.0p	43.1p

Business description

Raven Russia (RUS) invests mainly in Class A warehouses in Russia let to large Russian and international companies. It also owns three office buildings in St Petersburg, a third-party logistics company in Russia (RosLogistics) and a residential development company in the UK (Raven Mount).

Next events

AGM	Expected May 2018

Analysts

Martyn King	+44 (0)20 3077 5745
Andrew Mitchell	+44 (0)20 3681 2500

financials@edisongroup.com

Edison profile page

Raven Russia is a research client of Edison Investment Research Limited

Well positioned for warehouse market recovery

Raven Russia (Raven), listed on the main market of the London Stock Exchange (LSE). It was founded in 2005, with the intention of building a portfolio of modern, Grade A Russian warehouse assets through acquisition and development. The company has been self-managed since 2008 and has built a substantial portfolio which, at 31 December 2017, comprised c 1.8m sqm of predominantly logistics warehouse property (of which c 72% is in the Moscow region). At end-2017 the portfolio was 81% let, to mainly large Russian or international companies. International comparisons show Russia to have a relatively low density of warehouse space, a positive indicator for long-term growth. In the near term, the Russian recession through 2015-16 coincided with a cyclical pick-up in new building, causing vacancies to increase and rents to fall, with the market converting almost completely to rouble-denominated lease terms in contrast to longer-term US dollar-denominated leases that Raven has historically targeted. However, with economic recovery taking hold, the US$/rouble rate relatively stable, oil prices improving, and inflation and interest rates declining, warehouse market conditions are improving.

New Grade A development completions in the Moscow region in 2017 were the lowest since 2006 (source: JLL), and well below improving levels of take-up, with vacancy across the market reducing. Market rents have stabilised. Raven has a strongly liquid balance sheet, ending 2017 with a cash balance of $266.7m, which supports a continuing acquisition strategy (four properties acquired in 2017) aimed at high-quality, attractively yielding assets to support income through the transition from maturing, dollar leases. Acquisitions are not included in our base forecasts, but a sensitivity analysis is provided on page 7.

In addition to the core investment property division, group subsidiaries include Raven Mount, a UK residential development company, and RosLogistics, a third-party logistics business in Russia.

Raven warrants (RUSW) and preference shares (RUSP) are traded on the LSE in addition to the ordinary shares (RUS), while convertible preference shares (RUSC) trade on the official list of the International Stock Exchange Authority Limited (TISEA).

Full year results positively surprise

The full year results were a positive surprise, with strong growth in net operating income, statutory and underlying earnings, NAV per share, and an increased distribution. We had not anticipated the disposal gains on the legacy UK land bank, and stripping this out of underlying earnings leaves them pretty much where we had expected. Market conditions are improving, and this is reflected in a gain on revaluation of investment properties (not in our forecast) and contributing to NAV growth. With management sounding increasingly confident about the outlook, in addition to the land sale gain, the increase in distributions was also not in our forecast.

Exhibit 1: Raven's FY17 results

$m unless otherwise stated	2017			2016			Change in
	Underlying earnings	Capital & other	Total reported	Underlying earnings	Capital & other	Total reported	underlying 2017 v 2016
Property investment net operating income	133.3		133.3	140.6		140.6	-5%
RosLogistics net operating income	12.4		12.4	9.8		9.8	26%
Raven Mount net operating income	21.1		21.1	1.3		1.3	n.m.
Total net operating income	166.7	0.0	166.7	151.7	0.0	151.7	10%
Administrative & other expenses	(27.0)	(6.1)	(33.1)	(27.4)	(7.0)	(34.4)	-1%
Foreign currency gain/(loss)	9.2		9.2	18.1		18.1	
Share of JV profits	2.1		2.1	1.8		1.8	
Operating profit before property gains/(losses)	151.1	(6.1)	144.9	144.2	(7.0)	137.2	5%
Gains/(losses) on properties	0.0	38.2	38.2	0.0	(39.5)	(39.5)	
Operating profit	151.1	32.0	183.1	144.2	(46.6)	97.7	
Net finance expense	(78.1)	(14.4)	(92.4)	(81.9)	6.5	(75.4)	-5%
Profit before tax	73.0	17.7	90.6	62.3	(40.1)	22.2	17%
Tax	(16.2)	(16.8)	(33.0)	(15.2)	0.7	(14.5)	
Underlying profit after tax	56.8	0.9	57.7	47.1	(39.4)	7.7	21%
Add back convertible preference share dividend	12.6			4.6			
Fully diluted underlying earnings	69.4			51.7			34%
Average number of shares	663.5			657.5			
Average fully diluted no. shares assuming pref. conversion	936.4			759.6			
Underlying EPS - basic ($c)	8.56			7.17			19%
Underlying EPS - fully diluted ($c)	7.41			6.81			9%

Source: Raven Russia

Key financial highlights

- **Net operating income grew 10%.** The investment portfolio NOI was 5% lower, reflecting the continuing reversion to market rent levels that are below the currently contracted average, and almost completely denominated in roubles, partly offset by a c $10m part-year contribution from properties acquired. The logistics subsidiary, RosLogistics, continues to show strong growth, while the UK development subsidiary, Raven Mount, produced a pleasant surprise, taking advantage of planning consents to realise a substantial c $20m gain on the sale of most of its non-core, legacy land bank.
- **Expenses were well controlled.** Including bonuses and long-term incentives, administrative and other expenses were slightly lower year-on-year on both a reported and underlying basis. Bonuses and incentives were lower (c $4.5m versus c $9.1m), offset by a $2m impairment of the remaining Raven Mount goodwill, post the land sale, and underlying inflation, especially on rouble-denominated costs. The adjustment from reported to underlying expenses includes the goodwill impairment, depreciation and the share-based element of bonuses and incentives.
- **Net interest expense benefited from lower borrowing costs and rouble deposits.** Underlying net financial expense declined as a result of increased interest income from higher cash balances, mostly rouble-denominated, as well as a lower cost of borrowing. The latter mainly reflects a higher share of lower-rate convertible preference share debt in the mix. The difference between the underlying and reported net interest expense was amortisation of the redemption premium on preference shares, amortisation of loan arrangement fees and fair value movements on derivative instruments.
- **Underlying profit after tax increased 21% and underlying EPS by 19%.** On a fully diluted basis, and assuming full conversion of the convertible preference shares, the increase in earnings was 34%, but the EPS increased by a smaller 9% as a result of the higher number of potential shares resulting from the second issue of convertible preference shares in July 2017.
- **NAV benefited from a $38.2m net profit on revaluation of the investment portfolio,** which reflects a c 50bp tightening of the external (JLL) yield assumption and no material change in the portfolio expected rental value (ERV), both mirroring market developments. Fully diluted

NAV per share increased to 80c, or c 60p at the current US$/£ exchange rate, from 71c. The positive $9.2m FX result reported in the P&L account reflects the positive impact of increased rouble cash balances as the currency strengthened. Other comprehensive income (and net assets) saw a $24.7m loss that primarily results from the US dollar translation of the preference share liabilities, denominated in sterling.

- **The year-end cash balance increased to $266.7m** compared with $198.6m a year earlier. A second issue of convertible preference shares raised £102m ($126m) in July while investing more than $170m (rising to a maximum $209m including deferred consideration) in the acquisition of four new properties during the year.
- **The fall in Russian interest rates may offer the opportunity to better balance rents with rouble debt**. Long-term US dollar rents historically created a hedge to US dollar borrowings, but the move to rouble rents has opened an increased FX mismatch. Raven continued to restructure its existing US dollar secured bank debt in 2017, pushing out the average maturity and reducing annual amortisation, but the fall in Russian interest is opening an opportunity to shift borrowings towards roubles, reduce the FX risk and manage interest costs. In anticipation, management is in dialogue with its banking partners about a possible transition.
- **A final distribution of 3.0p per ordinary share takes the total for the year to 4.0p (2016: 2.5p).** The increase reflects the positive result for the year and management's increasing confidence about the future prospects. As usual, the distribution is to be made by way of a tender offer buyback of 1 in 17 shares at 52p.

Key operational developments

- **Economic conditions in Russia improved** during the year. GDP grew 1.5% (2016: -0.2%), the US$/rouble rate relatively stable in a range of 56-60, oil prices increased, inflation fell (2.2% in January 2018), and interest rates have followed, falling from 10% at the beginning of 2017 to 7.5% following the latest 25bp cut in February 2018. With the improving economy, occupier demand for logistics warehouse space increased while development completions slowed.

Exhibit 2: Rouble versus US$

Source: Bloomberg, 8 March 2018

Exhibit 3: Brent crude oil price in US$

Source: Bloomberg, 8 March 2018

- **Demand-supply conditions in the warehouse market have also improved**. Grade A development completions in the Moscow region declined to c 530,000 sqm in 2017, roughly half the prior year level. With take-up running at c 1.2m sqm, JLL estimates end-2017 market occupancy at 8.3% compared with 9.5% at end-2016. JLL also says that prime rents for new deals have stabilised at c RUB4,000 per sqm.
- **Four properties were acquired during the year**, taking the total gross lettable (GLA) area to 1.822m sq ft. In April 2017 Raven acquired three separate properties in St Petersburg, adding 87,000 sqm of Grade A warehousing and 33,000 sqm of offices. The consideration was RUB4.9bn (c $86m) at an initial 16% yield. The properties were 98% let to 68 tenants. In

November 2017 Raven completed the acquisition of Logopark Sever, a 195,000 sqm Grade A warehouse complex to the north of Moscow. The initial consideration was RUB5.1bn (c $88.5m), with deferred consideration that takes this up to a maximum RUB7.1bn (c $122.7m) depending on leasing progress from the 73% occupancy at acquisition. The maximum consideration represents a yield of 11.4% and a reversionary yield of 12.5%. Further acquisitions are expected.

- **Warehouse occupancy remained stable on a like-for-like basis.** Including a small benefit from acquisitions it was 81% at end-2017 compared with 80% in December 2016. The small headline improvement came in H2, with mid-year occupancy at 79%, which suggests an improved like-for-like performance during H2. The office portfolio (less than 3% of total GLA), is practically fully occupied. Vacancy in Raven's portfolio is higher than for the general market, especially in Moscow (72% of GLA, with 78% occupancy) as leases have expired and new lettings have failed to keep pace. Some speculative developers are continuing to let space at levels that Raven feels are below the real market and likely to destroy value for shareholders if entered into at this time, as the market stabilises. The market in St. Petersburg is somewhat tighter.
- **Active asset management of the portfolio continues** and can be seen by significant leasing activity. 198,100 sqm of existing leases were renegotiated and extended during the year, while 179,600 sqm of space was vacated at maturity or terminated early, offset by 187,100 sqm of new leases agreed. Of the 1,815k sqm of space (1,766k sqm of warehouse space and 49k sqm of office space), 342,900 sqm was vacant at year end. Exhibit 4 provides the updated maturity profile. In addition to the 170,000 sqm of lease maturities in the current year, there are 78,300 sqm of lease breaks (and 79,000 sqm in 2019). Good progress has been made in the year to date, with 53,000 sqm of renewals and 21,000 sqm of new lettings completed. In addition, letters of intent on 38,000 sqm of vacant space and 8,400 sqm of extensions have been signed.

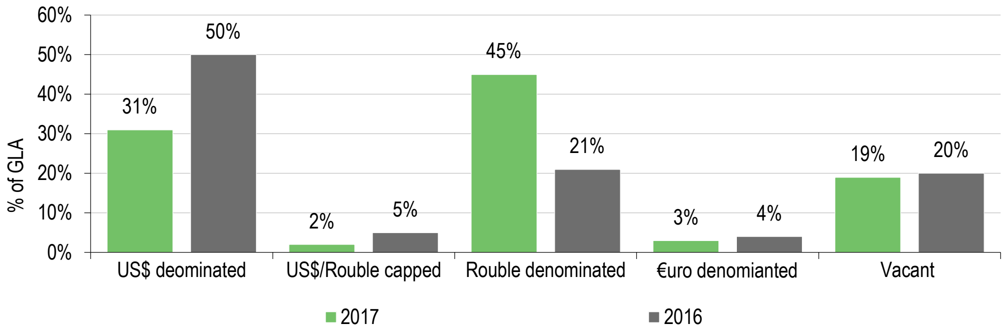
Exhibit 4: Portfolio maturities

('000 square metres)	2017	2018	2019	2020	2021-27	Total
Maturity profile (1 January 2017)	215	165	252	179	392	1203
Impact of acquisitions	44	31	21	19	147	262
Subtotal	**259**	**196**	**273**	**198**	**539**	**1,465**
Lease extensions	(97)	(79)	(22)	0	0	(198)
Vacated/terminated	(162)	(14)	(4)	0	0	(180)
Remaining lease maturity (31 December 2017)	**0**	**103**	**247**	**198**	**539**	**1,087**
Maturity profile of 2017 extensions	0	51	0	78	69	198
New leases	0	15	17	32	123	187
Maturity profile as at 31 December 2017	**0**	**169**	**264**	**308**	**731**	**1,472**

Source: Raven Russia

- **The market transition to rouble-denominated rents continues**, with the share of US dollar-denominated rents reducing to 31% of the total, measured by warehouse GLA at end-2017 (2016: 50%), with an average term to maturity of three years. Much of this is leases on high-specification, temperature controlled space, with an average rent level of $143 per sqm. 45% (2016: 21%) represented rouble-denominated rents (with an average annual indexation of 6.8%) with an average rent of RUB5,200 per sqm (c $87) and a weighted average lease length of 3.6 years. A further 2% of leases are subject to rent increase caps, with euro-denominated rents (3%) and vacant space account for the balance (20%) accounting for the balance of GLA.

Exhibit 5: Currency exposure by warehouse space



Source: Raven Russia

With both the warehouse and office markets in which Raven operates now being effectively rouble only, the remaining long-term US dollar contracts should therefore be expected to unwind over the next three years. New lease terms, in roubles, are shorter and generally contain lease break clauses (c three years on average or five years with a three-year break option, compared with an average c five years previously for dollar leases). They do have the advantage of having annual indexation linked to Russian CPI. At current market rent levels, this unwinding of long-term dollar contracts will be a negative drag on revenue, for which acquisitions are providing an off-set. Average rents for new lettings in roubles during 2017 were RUB3,870 per sqm (c $65) while lease renewals benefit from tenants wanting to avoid the frictional cost of moving and averaged RUB5,250 (c $87.5) for rouble leases.

Acquisitions and occupancy have the potential to offset dollar lease unwind

We would expect a continuation of the market recovery to improve occupancy and support market rents, while further acquisitions are also likely. Raven made two accretive acquisitions (four properties) in 2017, expects to complete more in 2018 and has the balance sheet to finance them. Together, these have the potential to offset the further drag on revenues from the unwinding of long-term dollar lease contracts. We estimate that dollar rents contributed c 50% of total NOI in 2017 and with a three-year maturity, the unwind into rouble contracts at current rents would see half of this erode. Our forecasts allow for this and include an occupancy improvement (by 4% in each of 2018 and 2019), to reflect the improved market supply-demand balance, but no acquisitions, as we have no way to know when they may happen and on what terms. We can however illustrate the potential impact and we present a sensitivity analysis below.

The 2017 underlying result was very much in line with our forecast, with the exception of the unexpected land sale gain at Raven Mount (Exhibit 5).

For 2018, our forecast is reduced although the extent of the reduction is exaggerated by our reluctance to include the likely acquisitive activity. We have reduced our NOI expectation by 3% which primarily reflects a lower assumed rent level on new and extended leases. On average, these are now forecast at $70 per sqm versus $75 per sqm previously, reflecting current market levels. We nevertheless expect warehouse NOI to increase in 2018 with the full year impact of the 2017 acquisitions adding at least $14m. The other factor suppressing our revised 2018 forecast is higher net finance charges, resulting from the additional debt taken on in H217 as part of the company’s refinancing operations. The reality is that the debt has boosted cash levels, and the cash is likely to find a home in accretive acquisitions, the subject of the sensitivity analysis. For 2019, we expect much of the same, with the further increase in occupancy only partly off-setting the dollar lease unwind, in the absence of forecast acquisitions.

Exhibit 6: Underlying earnings performance versus estimate and revisions

$m unless otherwise stated	Actual	New forecast		Previous forecast		2017 actual vs forecast	Change in 2018 forecast
	2017	2018	2019	2017	2018		
NOI	166.7	154.6	150.1	145.3	158.6	15%	-3%
Administrative expenses	(25.3)	(25.9)	(26.0)	(25.6)	(26.0)	-1%	0%
Share based payments & long-term incentives	(1.6)	0.0	0.0	(0.8)	0.0		
FX gains/(losses)	9.2	0.0	0.0	4.9	0.0		
Share of profit of JV	2.1	1.0	1.0	0.8	1.0		
Operating profit	**151.1**	**129.7**	**125.1**	**124.5**	**133.6**	**21%**	**-3%**
Net finance expense	(78.1)	(86.2)	(85.2)	(78.2)	(80.9)	0%	7%
Underlying profit before tax	**73.0**	**43.5**	**39.9**	**46.3**	**52.7**	**58%**	**-17%**
Tax	(16.2)	(10.9)	(10.0)	(14.3)	(13.2)		
Underlying profit after tax	**56.8**	**32.6**	**29.9**	**32.0**	**39.5**	**78%**	**-17%**
Add back preference share dividend	12.6	16.3	16.3	12.6	16.3		
Fully diluted underlying earnings	**69.4**	**48.8**	**46.1**	**44.6**	**55.8**	**56%**	**-12%**
Average number of shares (m)	663.5	636.0	609.4	665.8	654.8		
Average fully diluted no. shares assuming pref. conversion (m)	936.4	991.8	965.2	949.0	1,015.1		
Underlying EPS - basic ($c)	**8.56**	**5.12**	**4.91**	**4.81**	**6.03**	**78%**	**-15%**
Underlying EPS - fully diluted ($c)	**7.41**	**4.92**	**4.78**	**4.69**	**5.50**	**58%**	**-10%**

Source: Raven Russia, Edison Investment Research. Note: Compared with IFRS, underlying earnings exclude valuation movements, depreciation, amortisation of debt issuance costs, amortisation of preference share redemption premium, share-based payments and exceptional items.

Significant upside to base case from acquisitions

Raven is continuing to seek high quality income producing acquisitions and expects distressed sellers or mature funds exiting the market to provide further opportunities over the coming months, despite improving market conditions and the falling cost of local funding.

As noted above, the cash position was $266.7m at end 2017, although we would not expect management to commit all of the available cash resources to investment and assume that it will continue to prudently hold c $100m. Allowing for this, our revised analysis suggests that Raven has capacity to invest c $120m by the end of 2019, most likely in initially ungeared acquisitions, which are then geared to recycle equity into further projects. Assuming a 60% LTV again, this implies potential cash-generating asset additions of more than $300m (end-2017 investment portfolio: $1.6bn). This is a similar figure to our previous estimate, although we have moved to a 2019 basis (from 2018) and no longer assume re-gearing of the 2017 acquisitions following the debt raised in H217. By the end of 2019, any deferred consideration for the Sever acquisition will have been paid and has no impact on the calculation.

Exhibit 7: Potential for further asset investment

($000s unless stated)	2019
Forecast cash and equivalents	220,477
Cash retention assumed	100,000
Cash available for investment	120,477
Assumed LTV (%)	60
Potential geared asset investment	301,191

Source: Edison Investment Research

The additional potential upside to our base case forecasts remains substantial as we show below. JLL estimates prime yields in the Moscow warehouse market at 11-12.5% (*Moscow Warehouse Market Indicators, 2017)*, with St Petersburg c 100bp above this. In Exhibit 8, we illustrate the potential uplift to NOI and underlying earnings from investing the $301m estimated in Exhibit 7, at a range of property yields between 10-12%. We assume no significant acquisition costs or additional administrative costs and have applied a 7.8% interest cost to additional borrowings, similar to the existing average cost of secured US dollar debt – although management hopes to be able to lower this, especially with local borrowing costs falling.

Exhibit 8: Potential accretion from asset acquisitions

Forecast earnings ($000s unless stated)	2019e		
Underlying earnings - basic	29,890		
Underlying earnings (fully diluted basis)	46,147		
Total net operating income after interest	29,366		
Add back convertible preference dividend	16,257		
Total net operating income after interest (adj. for conv. pref. div.)	**45,623**		
Potential acquisition impact (full year basis)		**2019e**	
Potential asset investment	301,191	301,191	301,191
Assumed net initial yield	**10%**	**11%**	**12%**
Additional NOI	30,119	33,131	36,143
Interest income adjustment	-19,276	-19,276	-19,276
Net earnings uplift	10,843	13,855	16,867
Tax	25%	25%	25%
Net earnings uplift	8,132	10,391	12,650
Adjusted earnings			
Underlying earnings - basic	38,023	40,281	42,540
Underlying earnings (fully diluted basis)	54,279	56,538	58,797
Total net operating income after interest	37,499	39,757	42,016
Total net operating income after interest (adj. for conv. pref. div.)	53,755	56,014	58,273
Potential accretion to base case forecast			
Underlying earnings - basic	**27%**	**35%**	**42%**
Underlying earnings (fully diluted basis)	**18%**	**23%**	**27%**
Total net operating income after interest	**28%**	**35%**	**43%**
Total net operating income after interest (adj. for conv. pref. div.)	**18%**	**23%**	**28%**

Source: Edison Investment Research

On this basis, full deployment of resources in the way described (at an 11% net initial yield) has the potential, on an annualised basis, to increase NOI by $33m and lift underlying earnings and net operating income after interest costs by an additional 35%, compared with our FY19 base case forecast. On a fully diluted basis (allowing for preference share conversion) the increases, from a higher base, is 23%. In both cases, the percentages are the same in per-share terms.

We are now more confident that market conditions will continue to improve (as management anticipates, and partly reflected in our forecasts, which include improving occupancy but no uplift in market rents), acquired NOI has the potential to offset the un-wind of long-term dollar contracts and generate earnings growth. Alternatively, assuming no improvement in market rents or occupancy, acquired NOI would materially offset an eventual reversion to marke- level NOI of $35-40m pa, albeit spread over a number of years.

Valuation

An investment in Raven can be made via ordinary shares, preference shares, convertible preference shares and warrants. The ordinary shares receive variable distributions and would benefit fully from any growth in NAV or discount narrowing (c 27% currently). The 4p distribution declared for 2017 represents a yield of 9.3% on the ordinary shares. We believe this partly reflects the non-recurring gains at Raven Mount and we assume a lower distribution for 2018 and 2019 of 3p per share in each year, a yield of 7.0%. Our assumed distribution is relatively high compared with forecast earnings, more so in 2019, but as noted above, a full deployment of cash resources on cash-generative acquisitions has the potential to substantially lift earnings and cash flow above the forecast levels.

The convertible preference shares (RUSC) rank ahead of other share classes in terms of dividend payments and receive a cumulative 6.5% preferential dividend on the subscription amount of 100p, a yield of 5.4% on the current price of 120.5p. The convertible preference shares can be converted into ordinary shares at any time up to July 2026, currently at a rate of 1.779 (equivalent to 67.7p per ordinary share at the current price). The (non-convertible) preference shares (RUSP) earn a cumulative 12% dividend on the fixed issue amount per share of 100p, ranking ahead of the ordinary shares. At a current price of 147.0p, the yield is 8.2%.

The growth in NAV per share in 2017 was supported by investment portfolio valuation gains, reflecting the stabilisation of the market and falling interest rates. If the market continues to improve, as we expect, we believe there is room for valuation yields to decline further over the medium to long term, but would not anticipate a material near-term shift. The investment market in Russia is relatively thin compared with the size of the economy, making valuation movements less predictable.

Diluted IFRS NAV per ordinary share at end-2017 was 80c and on an adjusted basis (adjusted for goodwill, deferred tax on valuation gains, fair value movements on derivative contracts and cumulative FX movements on preference shares) and fully diluted (including cumulative preference shares), at 78c. At an exchange rate of $1.3550/£, this represents 60p for a discount of c 27%.

Exhibit 9: Financial summary

Year end December	2014	2015	2016	2017	2018e	2019e
PROFIT & LOSS						
Gross revenue	257,596	219,704	195,294	228,082	209,630	204,114
Property operating expenditure & cost of sales	(65,288)	(45,581)	(43,553)	(61,354)	(55,045)	(54,013)
Net rental and related income	192,308	174,123	151,741	166,728	154,585	150,100
Administrative expenses	(34,630)	(30,494)	(25,344)	(28,547)	(27,008)	(27,108)
Share based payments and other long-term incentives	(2,354)	(3,594)	(9,077)	(4,546)	(4,700)	(4,700)
FX gains/(losses)	(15,471)	1,223	18,079	9,229	0	0
Share of profit of joint ventures	955	2,518	1,780	2,074	1,000	1,000
Operating profit/(loss) before realised/unrealised property gains (EBIT)	140,808	143,776	137,179	144,938	123,877	119,292
Realised/unrealised gains on investment property	(145,404)	(256,548)	(39,517)	38,152	0	0
Operating profit	(4,596)	(112,772)	97,662	183,090	123,877	119,292
Net finance expense	(93,448)	(92,284)	(75,416)	(92,444)	(100,758)	(99,771)
Charge on preference share conversion	0	0	0	0	0	0
Profit before tax	(98,044)	(205,056)	22,246	90,646	23,119	19,522
Tax	9,855	12,697	(14,527)	(32,961)	(10,863)	(9,963)
Profit after tax	(88,189)	(192,359)	7,719	57,685	12,256	9,558
Company underlying earnings	66,652	54,559	47,122	56,808	32,588	29,890
Reported EPS - fully diluted (c)	(11.83)	(27.99)	1.16	8.55	1.88	1.52
Company underlying EPS - fully diluted (c)	8.94	7.94	6.81	7.41	4.92	4.78
Distributions per ordinary share (p)	6.00	2.00	2.50	4.00	3.00	3.00
Period end number of shares exc own held (m)	688.5	644.1	661.5	655.4	623.9	599.1
Average number of shares (m) - basic	715.0	666.8	657.5	663.5	636.0	609.4
Average number of shares (m) - fully diluted	745.5	687.2	667.7	675.1	653.4	626.8
BALANCE SHEET						
Investment property	1,593,684	1,333,987	1,300,643	1,568,126	1,571,126	1,574,126
Other non-current assets	151,840	96,735	92,097	100,844	100,845	100,845
Total non-current assets	1,745,524	1,430,722	1,392,740	1,668,970	1,671,971	1,674,971
Cash & equivalents	171,383	202,291	198,621	266,666	248,299	220,477
Other current assets	54,444	51,878	53,798	79,815	58,981	58,981
Total current assets	225,827	254,169	252,419	346,481	307,280	279,458
Total assets	1,971,351	1,684,891	1,645,159	2,015,451	1,979,251	1,954,429
Interest bearing loans & borrowings	55,252	104,724	40,787	106,697	50,000	50,000
Other current liabilities	86,215	55,481	66,351	107,392	91,278	83,223
Total current liabilities	141,467	160,205	107,138	214,089	141,278	133,223
Interest bearing loans & borrowings	837,429	814,021	699,038	740,485	767,182	737,182
Preference shares	164,300	156,556	131,703	146,458	146,460	146,460
Convertible preference shares	0	0	119,859	269,031	283,031	297,031
Other non-current liabilities	130,866	89,066	87,195	115,629	115,629	115,629
Total non-current liabilities	1,132,595	1,059,643	1,037,795	1,271,603	1,312,302	1,296,302
Total liabilities	1,274,062	1,219,848	1,144,933	1,485,692	1,453,580	1,429,525
Net assets (and shareholders' equity)	697,289	465,043	500,226	529,759	525,670	524,904
NAV adjustments						
Goodwill	(7,806)	(5,134)	(6,187)	(4,712)	(4,525)	(4,525)
Deferred tax on revaluation gains	55,250	0	0	0	0	0
Cumulative FX loss on preference shares	13,955	4,956	(20,362)	(7,854)	(13,606)	(13,606)
Fair value of derivatives	(5,322)	(5,159)	(5,041)	(8,172)	(3,941)	(3,941)
Adjusted NAV	753,366	459,706	468,636	509,021	503,598	502,832
Fully diluted NAV per share (c)	110	72	71	78	81	84
Adjusted fully diluted NAV (c)	106	70	68	78	81	84
Fully diluted NAV per share (p)	85	55	55	60	62	64
Adjusted fully diluted NAV (p)	81	54	52	60	62	64
CASH FLOW						
Net cash generated from operating activity	168,794	136,151	118,012	125,485	123,546	107,082
Payments for investment property under construction	(105,582)	(20,028)	(9,163)	(122,274)	(3,000)	(3,000)
Acquisition of subsidiary undertakings, net of cash acquired	(12,873)	0	0	(82,519)	0	0
Other investing activity	19,561	32,895	8,171	5,060	12,120	10,707
Net cash generated from investing activity	(98,894)	12,867	(992)	(199,733)	9,120	7,707
Bank borrowing costs paid	(70,979)	(69,465)	(66,808)	(64,171)	(66,154)	(63,754)
Ordinary dividends paid in cash	0	0	0	0	0	0
Preference/convertible preference share dividends paid	(18,225)	(17,156)	(19,437)	(27,875)	(33,832)	(33,832)
Net own shares (acquired)/disposed	(68,928)	(41,906)	6,624	(14,337)	(21,048)	(15,025)
Issue of preference/convertible preference shares	0	0	128,327	126,402	0	0
Debt drawn/(repaid)	89,447	23,157	(164,493)	107,764	(30,000)	(30,000)
Other investing activity	(3,086)	(4,930)	(4,972)	(485)	0	0
Cash flow from financing activity	(71,771)	(110,300)	(120,759)	127,298	(151,034)	(142,611)
Change in cash	(1,871)	38,718	(3,739)	53,050	(18,368)	(27,822)
Opening cash	201,324	171,383	202,291	198,621	266,668	248,300
FX/other	(28,073)	(7,812)	69	14,997	0	0
Closing cash	171,383	202,291	198,621	266,668	248,300	220,478
Debt	(1,056,981)	(1,075,301)	(991,387)	(1,262,671)	(1,246,673)	(1,230,673)
Net (debt)/cash	(885,598)	(873,010)	(792,766)	(996,003)	(998,373)	(1,010,195)

Source: Raven Russia, Edison Investment Research

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia