



## Half year report

### 1 January – 30 June 2018

- IFRS NAV at the end of the period was SEK 1,079 million (667) and SEK 26.78 per share (16.54).
- Profit for the period amounted to SEK 30 million (62) and SEK 0.74 per share (1.48).



## EOS Russia

EOS Russia was founded in the spring of 2007 in order to capitalize on investment opportunities arising as a result of the deregulation, restructuring and privatization of the Russian electricity sector.

EOS Russia AB is the Group's parent company and is headquartered in Stockholm, Sweden. EOS Russia Ltd is a subsidiary of EOS Russia AB and is located in Limassol, Cyprus. All investment activity is conducted by the subsidiary, which holds the complete investment portfolio of EOS Russia. EOS Russia was founded in its present form in May 2007 when the company decided to carry out a directed share issue to a number of institutional investors, paid for in kind or in cash. The company listed on First North on June 25, 2007.

## Recent Developments

### **MRSKs reported good performance in the first half**

In late July, MRSKs reported their first half 2018 RAS results. These show generally good operational performance that was all the more encouraging given that the equivalent 1H period in 2017 was very strong, especially for MRSK Center-Volga and MRSK Volga.

Based on these results, the dividend prospects for these MRSKs remain strong with a 15% dividend yield as a reasonable target for MRSK Center-Volga, MRSK Volga, MRSK North-West and Lenenergo preferreds for 2018.

MRSK Urals incurred a major cost-item below the operating lines under 'other costs' that increased to Rb8bn in 1H18 from Rb1.6bn in 1H17. This is evidently a write-down related to the years-long problem with non-payments that seems to resolve the problem fully. Nevertheless, MRSK Urals could still reasonably yield 4-6% for 2018 as its operating profitability has improved.

In July, we sold all our common shares in Lenenergo. However, we continue to hold the previously held preferred shares in the company.

### **Interview by Rosseti CEO**

There was a long interview of Rosseti CEO Livinsky in Kommersant on July 15. The following key points came up:

- Rosseti is working with the government to introduce a new long-term tariff regulation by the end of this year. The new system could be in place from 2019 or 2020.
- Livinsky spoke about adding a dividend component to the tariffs, but said that he would be also fine with the long-term regulation as a means of ensuring dividend payment capacity.
- On the subject of MRSK privatizations, he said that, in order not to sell at low valuations, the government

should first introduce the long-term tariffs and resolve the problem of tariff cross-subsidization [that is, residential consumers being subsidized by corporate consumers]. After that the privatizations could be discussed with the benefit of carrying them out at high valuations.

- When asked about the MCAP target of R1.5trn, he said that the MCAP should equal at least the sales (Rosseti sales in 2017 were R948bn, while Rosseti's MCAP at the time of the interview was R156bn). He said that it is realistic to achieve that target within 5 years. He indicated that the key drivers would be cost-cutting and dividend payments. He also mentioned that Rosseti aimed to increase the group's revenues from non-regulated services to one third of the aggregate top line by 2030.

- He also discussed the digitalization program (that is set to invest R1.3trn (\$21bn) over the next 14 years in grid digitalization) by re-iterating that it is a self-financing project and said that the goal is to have already next year 20% of the group capex directed to the project.

## Operational and financial results

### Group

EOS recorded a net profit from investing activities of SEK 35 million (73).

Operating expenses amounted to SEK -4.9 million (-11.5). Net financial items for the period amounted to SEK 0.0 million (0.0).

The profit for EOS during the period was SEK 30 million (62). Profit per share was SEK 0.74 (1.48). Total comprehensive income for the period was SEK 116 million (14).

EOS' net asset value at June 30, 2018 was SEK 1,079 million (667). The accumulated effect from exchange rate differences in the translation reserve is SEK -186 million (-272).

### Parent Company

The parent company's income for the period amounted to SEK 4.8 million (4.8). Operating expenses amounted to SEK -2.9 (-2.0) million for the period. Net financial items amounted to SEK 114.4 million (19.6) for the period of which SEK 114.4 (19.6) million is a write-up of shares in subsidiaries. The profit for the period was SEK 116.4 million (22.3).

The total number of shares outstanding at June 30, 2018 was 40,307,484 (40,307,484).

## EOS Russia's portfolio

EOS' investment strategy is to focus on companies within the power utilities sector in Russia with the best relative value as perceived by the Group.

Changes in the portfolio composition during the first half year are shown in the table below:

Share of EOS portfolio	June 30, 2018	December 31, 2017	Change
Thermal generation	-	-	-
Distribution	99,9%	99,9%	-
Transmission	0,1%	0,1%	-
Integrated	-	-	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	

As per June 30, 2018, EOS' portfolio consisted of the assets listed in the table below:

Assets June 30, 2018	Market value	
	MSEK	MUSD
Thermal generation	0,0	0,0
Distribution	934,8	104,3
Transmission	0,5	0,1
Integrated	0,0	0,0
<b>Total</b>	<b>935,3</b>	<b>104,4</b>

\* SEK/USD 8.9599

The fair value of the portfolio of shares is based on bid-prices quoted on the Moscow Exchange (MOEX).

## EOS Russia's share price development

The closing price of EOS share at August 21, 2018 was SEK 17.80 corresponding to an increase during the year of 30.9% (the OMX Stockholm 30 index increased 3.8% during the same period).

EOS share price decreased by 83.3% between June 25, 2007 and August 21, 2018 in comparison to the OMX Stockholm 30 Index that gained 7.9% during the same period.

## Other information

### Organization

The average number of employees in the group as of June 30, 2018 were two (2), of which one (1) was employed by the parent company.

### Related party transactions

#### Group

With regards to the management fee under the management advisory agreement with the two founders remaining with EOS Russia, covering the years 2017-2019, the group and the group company EOS Russia (Cyprus) Ltd has as of June 30 a liability of SEK 1.4 million (0.8) and has during the period recognised expense of SEK 0.7 million (0.8).

#### Parent company

EOS Russia AB has not granted any loans, warranties or guarantees to or for the benefit of board members or management. No agreements on benefits to board members or management following the completion of their respective assignments exist. None of the board members or management has any direct or indirect participation in business transactions with the group, which are or were unusual in nature or with regards to terms, and which occurred in the current or previous fiscal year.

### Provisions, contingent assets/liabilities and pledged assets

Apart from the items already outlined under “*Related party transactions*”, no provisions, contingent assets/liabilities or pledged assets have been accounted for.

## Risks

#### Group

Almost all the group’s assets are invested in shares of Russian power utility companies with no diversification in country or sector risk. The main part of the group’s assets is invested in shares on the Russian market. Russian securities trading legislation is more rudimentary than in many other countries, and there are few effective directives or requirements for disclosures about offers, sales or equity trading. The stock market is less liquid and more volatile in Russia than the United States or Western Europe. As

a result, the company’s investment portfolio may exhibit greater price volatility and poorer liquidity than one that focuses on securities of listed companies in more highly developed countries.

A large percentage of securities transactions are brokered outside the regulated exchanges. The legislation covering fraud and insider trading is less developed and the market’s disciplinary board lacks the resources to enforce the legislation that has been passed.

#### Parent Company

The risks associated with the activities for the group may also affect the parent company indirectly via the ownership of the subsidiary. The shares in the parent company are issued and traded in SEK and the group investments are held in USD or Russian Rubles, hence the parent company is subject to currency exchange risks. EOS policy is not to hedge such currency exposure.

EOS Russia is also exposed to other risks such as legal and political. For more information about EOS’ risk exposure, please see the risk section of the 2017 Annual Report.

## Significant events during H1

At the EOS AB annual general meeting on May 15 2018 the following board proposal was adopted:

- To renew the board's authorization to resolve on synthetic buybacks of own shares to a maximum of 29.9 per cent of all shares in the company prior to the next annual general meeting.

A new agreement regarding synthetic buybacks was made and entered into by and between EOS Russia and Pareto Securities.

From the annual general meeting and up until August 24, 2018, the Counterparty has repurchased 230,398 EOS shares.

## Compliance with rules and regulations

EOS Russia reports its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS). This interim report was prepared in accordance with IAS 34 Interim Financial Reporting and relevant parts of the Annual Accounts Act.

The parent company applies the same accounting principles as the group, but taking into consideration RFR 2 Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. In the Company's interim reporting the Annual Accounts Act chapter 9 is applied.

The same accounting principles have been applied as in the Annual Report for 2017 – in the accounts of both the Group and the Company.

For more detailed information about the principles used for the Group and the Company, please refer to the Annual Report 2017. Unless otherwise indicated, all amounts are rounded off to the nearest thousand SEK. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers.

## Synthetic repurchases of own shares (swap agreement)

Within the framework of the synthetic repurchase program, EOS enters into a swap agreement with a

Counterparty. The swap agreement governs the relationship between EOS and the Counterparty. According to the swap agreement the Counterparty purchases EOS shares on the market subject to a limit of 29.9% of the currently outstanding number of EOS shares and the swap agreement is subsequently settled at the unilateral choice of EOS either (i) by gross settlement provided that the Annual Meeting confirms that the share capital should be reduced or (ii) by settling the net amount between the purchase price paid by the Counterparty and the current market price of the shares. In the net settlement alternative EOS bears the up- and downside risk of the development of the EOS share price. For the performed services the Counterparty receives interest and a fee on EOS shares acquired. The fair value of the swap agreement is accounted for as a current derivative asset or liability in the Company Balance Sheet and the Consolidated Statement of Financial Position and the changes in fair values of the agreement as a finance income or finance expense in the Company Income Statement and the Consolidated Statement of Comprehensive Income.

## Fair value measurement of financial instruments

In the table below information is presented regarding the financial instruments that have been accounted for at fair value using the fair value method. The numbers are based on the same accounting and valuation policies as used in the company's 2017 annual report. The company estimates the value of investment in shares based on quoted prices on an active market (level 1). For other assets and liabilities that are not measured at fair value, the carrying amount is considered to reflect the fair value because the remaining maturity is generally short.

In thousands of SEK	2018-06-30		
	Level 1	Other	Total
<b>Assets</b>			
Other receivables	-	29 823	29 823
Shares and participations	935 295	-	935 295
Cash and cash equivalents	-	25 744	25 744
<b>Balance at June 30</b>	<b>935 295</b>	<b>55 567</b>	<b>990 862</b>

In thousands of SEK	2018-06-30		
	Level 1	Other	Total
<b>Liabilities</b>			
Trade and other payables	-	81	81
Accrued expenses	-	1 627	1 627
Other payables	-	4 288	4 288
<b>Balance at June 30</b>	<b>0</b>	<b>5 996</b>	<b>5 996</b>

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EOS Russia AB (publ)  
Reg nr 556694-7684

Ulf-Henrik Svensson  
CEO

*This Interim report has not been subject to review by the company's auditors*

## Financial calendar

- 2019-03-14 Year end report 1 January – 31 December 2018

Reports and Press Releases in English are available on EOS' web site:

[www.eos-russia.com](http://www.eos-russia.com)

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## Consolidated Income Statement and Statement of Comprehensive Income, in Summary

<i>In thousands of SEK</i>	Jan 1 - Jun 30	
	2018	2017
Net change in fair value of securities	-48 364	35 682
Dividends	83 228	37 730
<b>Net profit/loss - Investing activities</b>	<b>34 864</b>	<b>73 412</b>
Operating expenses*	-4 931	-11 494
<b>Result from operating activities</b>	<b>29 934</b>	<b>61 917</b>
Finance income	0	15
Finance expenses	-14	-54
<b>Profit/loss before income tax</b>	<b>29 920</b>	<b>61 878</b>
Income tax expense	-	-
<b>Profit/loss for the period</b>	<b>29 920</b>	<b>61 878</b>
<b>Other Comprehensive Income for the period</b>		
<i>Items that have been or may be recycled to profit/loss for the period</i>		
Translation differences	86 480	-47 821
<b>Total other Comprehensive Income for the period</b>	<b>86 480</b>	<b>-47 821</b>
<b>Total Comprehensive Income for the period</b>	<b>116 400</b>	<b>14 057</b>
<b>Attributable to equity holders of the Company</b>		
Profit/loss for the period	29 920	61 878
Total Comprehensive Income for the period	116 400	14 057
<b>Earnings per share</b>		
basic (SEK)	0,74	1,48
diluted (SEK)	0,74	1,48

\* see note 1 for detailed information

## Consolidated Statement of Financial Position

<i>In thousands of SEK</i>	Jun 30	Dec 31
	2018	2017
<b>Assets</b>		
Property, plant and equipment	3 539	3 314
<b>Total non-current assets</b>	<b>3 539</b>	<b>3 314</b>
Income tax receivables	208	282
Prepaid expenses and accrued income	89 278	220
Other receivables	31 733	1 235
Shares and participations	935 295	934 726
Cash and cash equivalents	25 744	28 231
<b>Total current assets</b>	<b>1 082 257</b>	<b>964 694</b>
<b>TOTAL ASSETS</b>	<b>1 085 796</b>	<b>968 008</b>
<b>Equity and liabilities</b>		
<b>EQUITY</b>		
Share capital	42 363	42 363
Other contributed equity	4 467 261	4 467 261
Reserves	-185 888	-272 368
Retained earnings, including profit/loss for the period	-3 244 469	-3 274 389
<b>Equity attributable to equity holders of EOS AB</b>	<b>1 079 267</b>	<b>962 867</b>
<b>Total Equity</b>	<b>1 079 267</b>	<b>962 867</b>
<b>LIABILITIES</b>		
Trade and other payables	81	879
Other liabilities	4 288	1 872
Accrued expenses and deferred income	2 160	2 390
<b>Total current liabilities</b>	<b>6 529</b>	<b>5 141</b>
<b>Total liabilities</b>	<b>6 529</b>	<b>5 141</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 085 796</b>	<b>968 008</b>

## Consolidated Statement of Changes in Equity in Summary

<i>In thousands of SEK</i>	Jan 1 - Jun 30	
	2018	2017
<b>Opening balance</b>	<b>962 867</b>	<b>666 288</b>
Total Comprehensive Income	116 400	14 057
Share redemption	-	-13 830
Liquidation of group company	-	358
<b>Closing balance</b>	<b>1 079 267</b>	<b>666 873</b>

## Consolidated Statement of Cash Flows

<i>In thousands of SEK</i>	Jan 1 - Jun 30	
	2018	2017
<b>Cash flows from operating activities</b>		
Profit/loss before income tax	29 920	61 878
Adjustment for non-cash items		
Change in fair value of securities	47 117	-34 559
Depreciation	64	67
Other	1 376	-1 979
Income tax paid	0	-14
<b>Net cash used in operating activities before changes in working capital</b>	<b>78 477</b>	<b>25 393</b>
<b>Cash flows from changes in working capital</b>		
Increase (-)/Decrease (+) in operating receivables	-111 792	-24 361
Increase (+)/Decrease (-) in operating liabilities	1 181	7 364
<b>Net cash used in operating activities</b>	<b>-32 135</b>	<b>8 397</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of shares and participations	29 648	-
<b>Net cash used in investing activities</b>	<b>29 648</b>	<b>0</b>
<b>Cash flows from financing activities</b>		
Share redemption	-	-13 830
<b>Net cash from financing activities</b>	<b>0</b>	<b>-13 830</b>
Net increase in cash and cash equivalents	-2 487	-5 433
Cash and cash equivalents at January 1	28 231	24 885
<b>Cash and cash equivalents at the end of the period</b>	<b>25 744</b>	<b>19 452</b>

## Consolidated Key Figures \*

	Jan 1 - Jun 30	
	2018	2017
Number of shares outstanding, end of period	40 307 484	40 307 484
Average number of shares outstanding	40 307 484	41 914 242
Net asset value, end of period, TSEK	1 079 267	666 873
Net Income per average number of shares outstanding, SEK	0,74	1,48
Net asset value per share, end of period, SEK	26,78	16,54
<i>* before and after dilution</i>		

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## Company Income Statement

	Jan 1 - Jun 30	
<i>In thousands of SEK</i>	<b>2018</b>	<b>2017</b>
Other income	4 830	4 800
Other external expenses	-1 063	-618
Employee benefit expenses	-1 810	-1 393
Other expenses	0	0
<b>Result from operating activities</b>	<b>1 957</b>	<b>2 789</b>
<b>Result from financial items</b>		
Result from participations in Group companies	114 445	19 586
Other interest income and similar income	0	15
Interest expense and similar charges	-2	-44
<b>Profit/loss before income tax</b>	<b>116 400</b>	<b>22 346</b>
Income tax expense	-	-
<b>Profit/loss for the period</b>	<b>116 400</b>	<b>22 346</b>

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## Company Balance Sheet

<i>In thousands of SEK</i>	Jun 30	Dec 31	Jun 30
	<b>2018</b>	<b>2017</b>	<b>2017</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets			
Participations in group companies	1 070 956	623 201	637 493
<b>Total fixed assets</b>	<b>1 070 956</b>	<b>623 201</b>	<b>637 493</b>
<b>Current assets</b>			
Current receivables			
Receivables from Group companies	0	-2 400	2 400
Income tax receivables	208	200	200
Other receivables	1 923	13 957	396
Prepaid expenses and accrued income	151	74	139
<i>Total current receivables</i>	<i>2 281</i>	<i>11 831</i>	<i>3 135</i>
Cash and bank	10 033	842	3 376
<b>Total current assets</b>	<b>12 314</b>	<b>12 673</b>	<b>6 511</b>
<b>TOTAL ASSETS</b>	<b>1 083 270</b>	<b>635 874</b>	<b>644 004</b>
<b>EQUITY</b>			
<i>Restricted equity</i>			
Share capital, 40,307,484 (40,307,484) shares at 1.05 (1.05)	42 363	42 363	42 353
<i>Unrestricted equity</i>			
Share premium reserve	4 466 749	4 480 578	4 466 759
Retained earnings	-3 546 245	-4 299 283	-3 889 186
Profit/loss for the period	116 400	410 097	22 346
<b>TOTAL EQUITY</b>	<b>1 079 267</b>	<b>633 756</b>	<b>642 272</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	81	102	30
Current tax liabilities	-213	468	-40
Other liabilities	2 511	300	118
Accrued expenses and prepaid income	1 624	1 249	1 623
<i>Total current liabilities</i>	<i>4 003</i>	<i>2 119</i>	<i>1 732</i>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 083 270</b>	<b>635 874</b>	<b>644 004</b>

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## Note 1 Consolidated operating expenses

<i>In thousands of SEK</i>	Jan 1 - Jun 30	
	2018	2017
Employee remuneration expenses	-2 101	-1 630
Depreciation of property, plant and equipment	-64	-67
Other	-2 101	-2 042
Consultancy agreements	-665	-755
Provision for social security payment	-	-7 000
<b>Total</b>	<b>-4 931</b>	<b>-11 494</b>

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