



Eastern Energy & Infrastructure Invest

Interim Report as at June 30, 2017

Dear Shareholders

Despite reporting a loss of CHF 0.88 mln for the period January – June 2017 (H1 2016: net loss of CHF 0.95 mln), EEII (the “Company”) registered tentative improvements in its investment portfolio and better operating efficiency with a reduction of its operating costs by 24 % compared to the same period 2016.

During the first half of 2017, EEII experienced a further reduction of its value. Overall, EEII’s net asset value (“NAV”) declined by 16.3 % from CHF 3.49 to CHF 2.92 per share.

The reported loss is primarily attributable to the negative share price development of one of the company’s main holdings, Gazprom. Gazprom’s share price decreased by almost 26 %, or CHF 0.9 mln during the first six months of 2017. This decrease occurred primarily against the background of broader weakness in the Russian equity market, which declined by 13.1 % (in USD terms) and proved to be one of weakest globally. Within the Russian equity market, energy producers were particularly hard hit, Gazprom’s peers such as Rosneft and Lukoil registered similar downturns. The large decrease of Gazprom’s share price could not be compensated by the increases in the value of the other two main holdings, KAZ Minerals and Ukrnafta, which gained 44,4 % and 10.5 % (combined CHF 0.29 mln) respectively during the first half of 2017. The value of the Company’s Ukrainian electricity company shares also increased and gained a combined 18 % in CHF. However, these companies still represent only a minor part of the current portfolio, and as a result their overall impact on the development of the Company’s NAV remains limited.

Foreign exchange volatility had once again a negative impact on the valuation of EEII’s investment portfolio, notably on the Gazprom position which is valued in USD. The US currency was subject to widespread weakness across all major currencies as optimism about reforms in the US rapidly vanished. Hence, the CHF strengthened by 6 % against the US Dollar. Meanwhile, the Ukrainian Hryvna regained some stability and slightly improved by 2.2 % against the CHF and the British £ showed little change.

Ukraine’s economy continued, as predicted, its path of slow recovery. While the front line in the east has remained effectively frozen and efforts to find a diplomatic solution have reached a standstill, the country’s economy is slowly moving forward. The signs of timid progress did not go unnoticed in the financial markets. Not only did the local currency Hryvna enter a period of welcomed stability, but the Ukrainian stock market UKX appreciated approx. 33 % in the first half of 2017. Last but not least, for H2 2017, it is expected that Ukraine may return to the sovereign debt market, a prospect that seemed very distant at the time of Ukraine’s debt restructuring in 2015. With respect to the Russian economy, the picture is becoming brighter. In fact, Russia registered 2.5 % GDP growth in Q2 compared to the same period 2016. While this is positive and growth has become more diversified beyond the energy sector, vulnerabilities remain. Recent events are casting a shadow on the country’s outlook. The U.S. Congress voted in July to step up sanctions on Russia, a move that could undermine confidence and possibly put a temporary damper on the pace of recovery in the medium-term.

EEII continues to face substantial country risks in its relevant investment markets. However, we continue to believe that the current share price levels of EEII’s investments do not in any way reflect the underlying fundamental values and the market growth potential of the portfolio companies. We are convinced that from a mid- and long-term perspective the emerging markets within the investment universe of EEII, and for the energy and infrastructure sector, maintain significant growth potential.

In the name of the entire Board of Directors, I thank you for your continued trust in the Company.

Yours sincerely,



Victor L. Gnehm
Chairman

Determination of the Net Asset Value

as of June 30

in CHF

	2017	2017	2016	2016
	Following IFRS presentation	Representing the shareholders' economic interest	Following IFRS presentation	Representing the shareholders' economic interest
Cash and other assets	150,323	150,323	185,114	185,114
Financial assets at fair value through profit or loss	4,916,988	4,916,988	4,551,561	4,551,561
Total assets	5,067,311	5,067,311	4,736,675	4,736,675
Total current liabilities	617,357	617,357	362,428	362,428
Share capital	10,845,321	10,845,321	10,845,321	10,845,321
(Accumulated deficit)	(6,395,367)	(6,395,367)	(6,471,074)	(6,471,074)
Total shareholders' equity	4,449,954	4,449,954	4,374,247	4,374,247
Total liabilities and shareholders' equity	5,067,311	5,067,311	4,736,675	4,736,675
Total shares outstanding	–	1,527,510	–	1,527,510
Number of treasury shares	–	–	–	–
Net Asset Value per share		CHF 2.92		CHF 2.86

Interim IFRS Financial Statements

IFRS Statement of Financial Positions

as of June 30

in CHF (unaudited)	Notes	30.06.2017	31.12.2016
Assets			
Cash and cash equivalents		121,156	87,132
Other assets		29,167	8,611
Total current assets		150,323	95,743
Financial Assets at fair value through profit or loss	6	4,916,988	5,581,372
Total non current assets		4,916,988	5,581,372
Total assets		5,067,311	5,677,115
Liabilities and shareholders' equity			
Accounts payable		2,315	11,256
Accrued expenses and other liabilities		132,945	130,658
Subordinated Shareholder Loan	5	482,097	202,548
Total current liabilities		617,357	344,462
Provision for employee benefits		–	–
Total non current liabilities		–	–
Share capital		10,845,321	10,845,321
(Accumulated deficit)		(6,395,367)	(5,512,668)
Shareholders' equity		4,449,954	5,332,653
Total liabilities and shareholders' equity		5,067,311	5,677,115

Interim IFRS Statement of Income

for the period from January 1st to June 30

in CHF (unaudited)	Notes	2017	2016
Operating income			
Interest income		42	2
Dividends		998	–
Unrealised loss on financial assets at fair value through profit or loss	7	(664,384)	(654,777)
Foreign exchange loss		(1,835)	(4,684)
Net operating loss		(665,179)	(659,459)
Operating expenses			
Advisory fees		77,401	87,750
Administrative fees		26,778	26,852
Directors fees		17,235	66,472
Personnel cost		7,166	27,136
Professional fees		36,583	33,680
Other expenses		45,162	41,640
Bank charges and interest expenses		7,004	1,953
Capital tax expense		190	290
Total operating expenses		217,519	285,773
Loss before tax		(882,698)	(945,232)
Income taxes		–	–
Net loss after tax		(882,698)	(945,232)
Net earnings per share			
Net loss		(882,698)	(945,232)
Weighted Average Number of shares (basic and diluted)		1,527,510	1,527,510
Net loss per share (basic and diluted)		(0.58)	(0.62)

Interim IFRS Statement of Comprehensive Income

in CHF (unaudited)	2017	2016
Net loss for the year	(882,698)	(945,232)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	–	1,289
Income taxes on remeasurement of post employment benefit obligations	–	–
Total other comprehensive income	–	1,289
Total comprehensive loss for the year	(882,698)	(943,943)

Interim IFRS Cash Flow Statement

for the period from January 1st to June 30

in CHF	2017	2016
Operating activities		
Loss before tax	(882,698)	(945,232)
Adjustments to reconcile loss before tax to net cash flows		
Interest income	(42)	(2)
Dividends	(998)	–
Foreign exchange loss/(gain) on cash and cash equivalents	1,835	4,684
Defined benefit cost recognised in profit or loss	–	3,133
Loan interest expenses	4,549	–
Unrealized losses/(gains) on financial assets at fair value through profit or loss	664,384	654,777
Working capital adjustments		
(Increase)/decrease in other assets	(20,557)	6,419
Decrease in accounts payable	(8,941)	(53,982)
Increase in accrued expenses and other liabilities	2,287	28,801
Net cash flows used in operating activities	(240,181)	(301,402)
Investing activities		
Interest received	42	2
Dividends received	998	–
Net cash flows from investing activities	1040	2
Financing activities		
Increase Shareholder loan	275,000	200,000
Net cash flows from financing activities	275,000	200,000
Decrease in cash and cash equivalents	35,859	(101,400)
Cash and cash equivalents at the beginning of the year	87,132	291,191
Foreign exchange (loss)/gain on cash and cash equivalents	(1,835)	(4,684)
Cash and cash equivalents at the end of the period	121,156	185,107
Cash and cash equivalents consist of:		
Cash at banks	121,156	185,107
Short-term deposits	–	–
Cash and cash equivalents as defined for the cash flow statement	121,156	185,107

Interim IFRS Statement of Changes in Equity

in CHF (unaudited)	Share capital	Share premium	Accumulated deficit	Total equity
Balance as of January 1st, 2014	15,275,100	3,774,508	(6,492,194)	12,557,414
Net loss for the year/Total comprehensive loss	–	–	(2,273,128)	(2,273,128)
Share capital/share premium set off against accumulated deficit	(2,718,968)	(3,774,508)	6,493,476	–
Transactions with owner in their capacity as owners				
Nominal value reduction	(1,710,811)	–	–	(1,710,811)
Balance as of December 31st, 2014	10,845,321	–	(2,271,847)	8,573,474
Net loss for the year	–	–	(3,254,929)	(3,254,929)
Other comprehensive income (OCI)				
Defined benefit cost recognised in OCI	–	–	(355)	(355)
Total comprehensive loss for the year			(3,255,284)	(3,255,284)
Balance as of December 31st, 2015	10,845,321	–	(5,527,131)	5,318,190
Net gain for the period	–	–	14,108	14,108
Other comprehensive income (OCI)				
Defined benefit cost recognised in OCI	–	–	(355)	(355)
Total comprehensive gain for the year			14,463	14,463
Balance as of December 31st, 2016	10,845,321	–	(5,512,668)	5,332,653
Net loss for the period	–	–	(882,698)	(882,698)
Other comprehensive income (OCI)				
Defined benefit cost recognised in OCI	–	–	–	–
Total comprehensive loss for the period	–	–	(882,698)	(882,698)
Balance as of June 30th, 2017	10,845,321	–	(6,395,367)	4,449,954

Notes to the IFRS Financial Statements

as of June 30, 2017

// Note 1 – Changes in accounting principles

In accordance with International Financial Reporting Standards, the interim financial statements have been prepared using the same accounting policies and methods of computation and valuation as used in the 2016 financial statements and are in compliance with IAS 34 interim financial reporting.

// Note 2 – Fair value of the investment portfolio

Fair value is determined on the basis of bid prices for actively traded investments and on the basis of fair value models for illiquid investments.

// Note 3 – Exchange Rate

The Company holds assets denominated in currencies other than Swiss Francs, its functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

The exchange rates used against the CHF were:

	2017	2016
USD	0.95860	0.96100
UAH	0.03671	0.03675
GBP	1.24530	1.35590

// Note 4 – Retirement benefit plan

No retirement benefit plan is in place as the current salary structure of the Company is not subject to pension obligations.

// Note 5 – Shareholder Loan

During the reporting period, in order to strengthen the working capital of the Company, the Company increased the subordinated shareholder loan of its main shareholder by an amount of CHF 275,000. The amount of the yearly interest payable by the Company is automatically adjusted every year and equal to the so-called "safe haven" interest rate between related parties as published by the Swiss tax authorities for CHF loans. The lender may demand repayment of the loan by giving at least a three months notice in advance.

// Note 6 – Investments

as of June 30, 2017

Financial assets at fair value through profit or loss	Balance as of January 1 st , 2017		Balance as of June 30, 2017	
	Quantity	CHF	Quantity	CHF
Ukrainian Energos/Power Generation Companies				
Centrenergo	141,000	55,011	141,000	54,578
Dniproenergo	1,380	10,399	1,380	35,463
Donbasenergo	11,400	4,517	11,400	5,252
Kievenergo	13,400	4,299	13,400	4,919
Zakhidenergo	9,800	23,088	9,800	43,172
Ukrainian Oil & Gas Companies				
Ukrnafta	302,701	1,177,555	302,701	1,301,266
Ukrainian Oblenergos/Power Distribution Companies				
Cherkasyoblenergo	1,139,044	60,303	1,139,044	62,642
Dniprooblenergo	1,250	2,592	1,250	7,113
Krimenergo	155,000	2,921	155,000	2,447
Volynobelenergo	2,085,000	17,114	2,085,000	18,605
Zhytomyroblenergo	552,204	48,500	552,204	36,489
Total Ukrainian Investments		1,406,299		1,571,946
Other Investments				
Gazprom ADR	742,800	3,811,158	742,800	2,819,710
KAZ Minerals	81,517	363,915	81,517	525,330
Total Other Investments		4,175,073		3,345,040
Total financial assets at fair value through profit or loss		5,581,372		4,916,986

// Note 7 – Financial Assets at fair value through profit or loss

in CHF	30.06.2017		31.12.2016	
Financial Assets at fair value through profit or loss brought forward		5,581,372		5,206,338
Purchase		–		–
Sale		–		–
Unrealised gain on financial assets at fair value		165,649		1,432,728
Unrealised loss on financial assets at fair value		(830,033)		(1,057,694)
Realised gain on financial assets at fair value		–		–
Financial Assets at fair value through profit or loss		4,916,988		5,581,372
Listed shares	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 13)	4,835,740	98	5,503,955	99
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)	81,247	2	77,417	1
Total	4,916,988	100	5,581,372	100
Ukraine	1,571,948	32	1,406,298	25
Russia	2,819,710	57	3,811,159	69
Kazakhstan	525,330	11	363,915	7
Total	4,916,988	100	5,581,372	100

Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)

in CHF	30.06.2017	31.12.2016
Financial Assets at fair value through profit or loss		
At fair value		
as of January 1 st	77,417	34,859
Gain in profit or (loss)	3,830	42,558
as of June 30	81,247	77,417

Fees, Securities and Capital Structure

// Advisory Contracts/Mandate agreements

Since the beginning of the year 2017 Weissenstein & Partner AG, Zürich ("W&P") serves as an advisor to EEII on the basis of a mandate agreement. Since then W&P provides services to EEII on the basis of a Mandate Agreement. EEII's Board of Directors conferred on W&P responsibilities for tasks such as financial & investment advisory, monitoring, reporting as well as regulatory and compliance. W&P's compensation is fixed with no variable components. W&P's compensation amounted to CHF 77'401 for the first half of 2017.

// Shares

Listed on Swiss Exchange (SWX) on January 21, 1999 (Valor 716 295). Nominal value: CHF 7.10. In total, 1,527,510 shares have been issued (see capital structure).

// Weekly NAV information

Bloomberg: EEII SW

www.eeii.ch

// Capital structure

As of June 30, 2017 the Company's share capital consisted of 1,527,510 ordinary bearer shares with a nominal value of CHF 7.10 per share (Security No. 716 295/ISIN Code CH007162958). Each share represents one voting right. As per June 30, 2017 Gehold SA, Geneva owned 92.41 % of the outstanding shares of the Company.

Organization, Related Parties, Manager and Address

Registered office EEII AG

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Management of the Company

Marcus H. Bühler, CEO

Advisor

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Team of the Advisor

- › Roland Sager, Weissenstein & Partner AG
- › Christoph Offenhäuser, Weissenstein & Partner AG

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