



Eastern Energy & Infrastructure Invest

Interim Report as at June 30, 2010

## Dear Shareholders

While most of the stock exchanges in Western Europe and America posted modest losses, the Ukrainian stock market rallied over 32% and the Russian stock market lost 10% during the first half year 2010. EEII's net asset value per share (NAV) benefited from the positive sentiment and increased by 13.3% from CHF 13.75 to CHF 15.58.

In absolute terms, the Company reports a net profit of CHF 2.8 million (H1 2009: net profit of CHF 3.9 million). By far the biggest contribution to this result comes from our holding Ukrnafta, the leading Ukrainian oil company, which gained almost 50% or more than CHF 4.6 million in value. The other big holding, Gazprom, lost in the same period CHF 2.1 million in value. The share prices of our holdings in Ukrainian electricity generation companies also showed a strong performance and the value of the positions rose 55%. The distributing companies – the so-called Oblenergos – had a comparably modest first half year and gained 8%. The currency situation was fairly stable from the beginning of the year.

The economy of Ukraine is showing signs of recovery as the country's GDP grew 4.8% yoy in the first quarter of 2010. Ukraine's economy and financial markets so far proved to be fairly resilient to the turmoil in the Eurozone. This is mainly thanks to strong export performance and the comparably low intensity of short-term capital flows. S&P recently raised the country's sovereign credit ratings to B/B (foreign currency) and B+/B (local currency) citing «improved policy coordination, the stabilization in Ukraine's external liquidity position and our expectations of an increase in useable foreign exchange reserves relative to short-term debt, and a relatively moderate general government debt burden» as the main reasons for the upgrade. The political stabilization played an instrumental

role in the improvement of the external accounts as capital inflows accelerated and tapering off depreciation expectations turned balance of payments positive in March 2010. In addition to that Ukraine secured at the beginning of July 2010 \$15 bln from the International Monetary Fund IMF. IMF announced an agreement with Ukrainian authorities on a new 30 months USD 14.9 bln stand-by loan. The new deal will facilitate fiscal consolidation, capping the budget deficit at 6.5% of GDP in 2010 and 3.5% in 2011. For the rest of 2010 mostly three main tasks are on the political agenda: First to complete banks' recapitalization by the end of 2010, second to reduce the quorum for shareholder meetings from 60% to a 50% + 1 share and third to eliminate discounts on prices for gas, electricity and transport services for industrial companies.

The Russian economy has also gained pace during the first half of 2010. GDP forecasts range between 4 and 5% for the current year. The credit crunch has eased and the President continuously puts efforts into modernizing the country and attracting innovative industries besides the natural resources sectors.

We are convinced that our equity investments are a good opportunity to further participate in the economic upswing and the ongoing political reforms in countries like the Ukraine and Russia. In the name of the entire Board of Directors, I thank you for your continued trust in the Company.

Yours sincerely,



Heinz-Dieter Waffel  
Chairman

# Determination of the Net Asset Value

as of June 30

in CHF (unaudited)

	2010 Following IFRS presentation	2010 Representing the shareholders' economic interest	2009 Following IFRS presentation	2009 Representing the shareholders' economic interest
Treasury stock – at market value	–	3,349	–	2,543
Cash and other assets	308,632	308,632	1,162,000	1,162,000
Financial assets at fair value through profit or loss	23,724,798	23,724,798	17,315,180	17,315,180
<b>Total assets</b>	<b>24,033,430</b>	<b>244,036,779</b>	<b>18,477,180</b>	<b>18,479,723</b>
<b>Total current liabilities</b>	<b>243,503</b>	<b>243,503</b>	<b>400,677</b>	<b>400,677</b>
Share capital	15,275,100	15,275,100	15,275,100	15,275,100
Share premium	3,774,508	3,774,744	3,774,508	3,773,938
Treasury stock	(3,113)	–	(3,113)	–
Retained earnings/(accumulated deficit)	4,743,432	4,743,432	(969,992)	(969,992)
<b>Total shareholders' equity</b>	<b>23,789,927</b>	<b>23,793,276</b>	<b>18,076,503</b>	<b>18,079,046</b>
<b>Total liabilities and shareholders' equity</b>	<b>24,033,430</b>	<b>24,036,779</b>	<b>18,477,180</b>	<b>18,479,723</b>
Total shares outstanding		1,527,510		1,527,510
Number of treasury shares		215		215
Net Asset Value per share		CHF 15.58		CHF 11.83

# IFRS Financial Statements

## INTERIM IFRS Balance Sheet

in CHF (unaudited)	30.6.2010	31.12.2009
<b>Assets</b>		
Cash and cash equivalents	308,318	610,501
<b>Total current assets</b>	<b>308,318</b>	<b>610,501</b>
Financial Assets at fair value through profit or loss	23,724,798	20,667,515
Trade and other receivables	314	1,847
Other assets	–	8,518
<b>Total non current assets</b>	<b>23,725,112</b>	<b>20,677,880</b>
<b>Total assets</b>	<b>24,033,430</b>	<b>21,288,381</b>
<b>Liabilities and shareholders' equity</b>		
Accounts payable	90,522	118,142
Accrued expenses and other liabilities	152,981	175,400
<b>Total current liabilities</b>	<b>243,503</b>	<b>293,542</b>
Share capital	15,275,100	15,275,100
Share premium	3,774,508	3,774,508
Treasury stock	(3,113)	(3,113)
Retained earnings	4,743,432	1,948,344
<b>Shareholders' equity</b>	<b>23,789,927</b>	<b>20,994,839</b>
<b>Total liabilities and shareholders' equity</b>	<b>24,033,430</b>	<b>21,288,381</b>

# INTERIM IFRS Statement of Comprehensive Income

for the period from January 1<sup>st</sup> to June 30

in CHF (unaudited)	2010	2009
<b>Operating income</b>		
Interest income	962	3,142
Dividends	514	–
Unrealised gain on financial assets at fair value through profit or loss	3,057,283	4,181,409
Foreign exchange gain – net	20,479	21,552
Other income	–	285
<b>Net operating gain</b>	<b>3,079,238</b>	<b>4,206,388</b>
<b>Operating expenses</b>		
Management fees	115,000	115,000
Administrative fees	26,679	26,604
Directors fees	69,631	85,471
Professional fees	44,573	75,274
Other expenses	20,110	44,810
Bank charges and interest expenses	7,664	6,236
Capital tax charge	493	493
<b>Total operating expenses</b>	<b>284,150</b>	<b>353,888</b>
<b>Profit before tax/Total comprehensive income</b>	<b>2,795,088</b>	<b>3,852,500</b>
Income tax expenses	–	–
<b>Net profit for the period/Total comprehensive income</b>	<b>2,795,088</b>	<b>3,852,500</b>
<b>Net earnings per share</b>		
Net profit	2,795,088	3,852,500
Weighted Average Number of shares (basic and diluted)	1,527,295	1,527,295
Net profit per share – (basic and diluted)	1.83	2.52

# INTERIM IFRS Cash Flow Statement

for the period from January 1<sup>st</sup> to June 30

in CHF (unaudited)	2010	2009
<b>Operating activities</b>		
Net profit/Total comprehensive income before tax	2,795,088	3,852,500
<b>Adjustments to reconcile profit/(loss) before tax to net cash flows</b>		
Non-Cash:		
Interest income	(962)	(3,142)
Dividends	(514)	–
Foreign exchange gain on cash and cash equivalents	20,480	21,552
Unrealized gain on financial assets at fair value through profit or loss	(3,057,283)	(4,181,409)
<b>Working capital adjustments</b>		
Decrease in trade and other receivables	1,534	52,925
Decrease in other assets	8,518	52,925
Decrease in accounts payable	(27,620)	(34,538)
Decrease in accrued expenses and other liabilities	(22,420)	(31,166)
<b>Net cash flows used in operating activities</b>	<b>(283,179)</b>	<b>(270,353)</b>
<b>Investing activities</b>		
Dividends received	514	–
Interest received	962	3,142
<b>Net cash flows from investing activities</b>	<b>1,476</b>	<b>3,142</b>
<b>Financing activities</b>		
Purchase / Sales of treasury shares	–	–
<b>Net cash flows from financing activities</b>	<b>–</b>	<b>–</b>
<b>Decrease in cash and cash equivalents</b>	<b>(281,703)</b>	<b>(267,211)</b>
Cash and cash equivalents at the beginning of the year	610,501	1,502,565
Foreign exchange (loss) on cash and cash equivalents	(20,480)	(21,552)
<b>Cash and cash equivalents at the end of the period</b>	<b>308,318</b>	<b>1,213,802</b>
<b>Cash and cash equivalents consist of:</b>		
Cash at banks	124,548	187,527
Short-term deposits	183,770	973,350
<b>Cash and cash equivalents as defined for the cash flow statement</b>	<b>308,318</b>	<b>1,160,877</b>

# INTERIM IFRS Statement of Changes in Equity

in CHF (unaudited)	Share capital	Share premium	Treasury stock	(Accumulated deficit)/retained earnings	Total equity
<b>Balance as of January 1, 2008</b>	<b>15,275,100</b>	<b>3,774,508</b>	<b>( 3,113)</b>	<b>6,675,771</b>	<b>25,722,266</b>
Net loss for the year / Total comprehensive loss	–	–	–	(11,498,263)	(11,498,263)
<b>Balance as of December 31, 2008</b>	<b>15,275,100</b>	<b>3,774,508</b>	<b>(3,113)</b>	<b>(4,822,492)</b>	<b>14,224,003</b>
Net profit for the year / Total comprehensive income	–	–	–	6,770,836	6,770,836
<b>Balance as of December 31, 2009</b>	<b>15,275,100</b>	<b>3,774,508</b>	<b>(3,113)</b>	<b>1,948,344</b>	<b>20,994,839</b>
Net profit for the period / Total comprehensive income	–	–	–	2,795,088	2,795,088
<b>Balance as of June 30, 2010</b>	<b>15,275,100</b>	<b>3,774,508</b>	<b>(3,113)</b>	<b>4,743,432</b>	<b>23,789,927</b>

# Notes to the IFRS Financial Statements

as of June 30, 2010

## // **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 2009 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.



## // Investments

Financial assets at fair value through profit or loss	Balance as of January 1, 2010		Balance as of June 30, 2010	
	Quantity	CHF	Quantity	CHF
<b>Power generation companies</b>				
Centrenerg	141,000	173,704	141,000	251,578
Dniproenerg	1,380	123,022	1,380	195,386
Donbasenerg	11,400	81,717	11,400	101,701
Kievenerg	13,400	19,503	13,400	27,611
Zakhidenerg	9,800	416,442	9,800	689,856
<b>Sub-total power generation companies</b>		<b>814,388</b>		<b>1,266,132</b>
<b>Power distribution companies</b>				
Cherkasyoblenerg	1,139,044	391,755	1,139,044	434,981
Dniprooblenerg	1,250	41,422	1,250	48,111
Krimenerg	155,000	65,463	155,000	66,050
Volynobelenerg	2,085,000	143,502	2,085,000	135,929
Zhytomyroblenerg	552,204	132,385	552,204	148,150
<b>Sub-total power distribution companies</b>		<b>774,527</b>		<b>833,221</b>
<b>Gas generation and distribution companies</b>				
Gazprom ADR	371,400	9,748,192	371,400	7,664,318
Ukrnafta	425,830	9,330,408	425,830	13,961,127
<b>Sub-total oil &amp; gas generation and distribution companies</b>		<b>19,078,600</b>		<b>21,625,445</b>
<b>Total financial assets at fair value through profit or loss</b>		<b>20,667,515</b>		<b>23,724,798</b>

## // Financial assets at fair value through profit or loss

Movements in the financial assets at fair value through profit or loss are as follows:

in CHF	30.06.2010	31.12.2009
<b>Financial Assets at fair value through profit or loss brought forward</b>	<b>20,667,515</b>	<b>13,133,771</b>
Unrealised gain on financial assets at fair value	3,057,283	7,533,744
<b>Financial Assets at fair value through profit or loss</b>	<b>23,724,798</b>	<b>20,667,515</b>

Listed shares	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 7)	23,005,738	97	19,999,873	97
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 7)	719,060	3	667,642	3
<b>Total</b>	<b>23,724,798</b>	<b>100</b>	<b>20,667,515</b>	<b>100</b>

	CHF	%	CHF	%
Ukraine	16,060,480	68	10,919,323	53
Russia	7,664,318	32	9,748,192	47
<b>Total</b>	<b>23,724,798</b>	<b>100</b>	<b>20,667,515</b>	<b>100</b>

**// Shares with limited liquidity (Level 3 in fair value hierarchy IFRS7)**

in CHF	30.06.2010	31.12.2009
<b>Financial Assets at fair value through profit or loss</b>		
At fair value		
as of January 1	667,642	236,333
as of June 30	719,060	667,642
<b>Gain in profit or loss</b>	<b>51,418</b>	<b>431,309</b>
<b>Total gain in other comprehensive income</b>	<b>51,418</b>	<b>431,309</b>
Other changes	0	0

## Fees, Securities and Capital Structure

**// Management fee**

Until February 17, 2005: 1.75% p.a. of the Company's average Net Asset Value. After February 17, 2005: a flat fee, payable quarterly, which corresponds approximately to 1% of the current Net Asset Value.

**// Shares**

Listed on Swiss Exchange (SIX) on January 21, 1999 (Valor 716 295). Nominal value: CHF 10.00. In total, 1,527,510 shares have been issued (see capital structure).

**// Weekly NAV information**

Bloomberg: EEII SW Equity  
www.eeii.ch

**// Capital structure**

As of June 30, 2010 the Company's share capital consisted of 1,527,510 ordinary bearer shares with a nominal value of CHF 10.00 per share (Security No. 716 295/ISIN Code CH007162958). Each share represents one voting right. As per June 30, 2010 Gehold SA, Geneva owned 92.41% of the outstanding shares of the Company.

# Organization, Related Parties, Manager and Address

## **Registered office**

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## **Custodian**

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## **Administrator**

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## **Auditor**

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## **Team of the Manager**

› Beat Imwinkelried, AIL Structured Finance Ltd  
› Urs Gerspacher, AIL Structured Finance Ltd  
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