



Eastern Energy & Infrastructure Invest

Interim Report as at June 30, 2012

Dear Shareholders

During the first half of 2012 the difficult environment in the international financial markets and the fear of a worldwide economical downturn affected the emerging markets and the shares of Eastern European energy & commodity companies.

The Ukrainian stock market lost almost 32 % during the first half year 2012 and the Russian stock market lost 2 % while many western stock exchanges were flat or posted modest gains. During the reporting period, EEII's (the "Company") net asset value per share (NAV) declined by 47 % from CHF 22.44 to 11.99 per share. This disproportionate decrease is mainly explained by the dividend payment of CHF 3.50 per share the Company distributed to its shareholders in the first quarter 2012. This dividend payout to shareholders amounted to CHF 5,343,533. Without accounting for the EEII dividend payment, the NAV would have decreased by 31 % in the first half year 2012, about in line with the overall decrease of the Ukrainian stock market. In addition during the reporting period, the company received dividends from its investment holdings totaling CHF 75,513.

In absolute terms the Company reports a net loss of CHF 10.6 million (H1 2011: gain of CHF 4.7 million). The loss is primarily attributable to the negative development of Ukrnafta's share price, one of the main portfolio investments, which lost 57 % or CHF 7.4 million in value during the first semester 2012. The other two main holdings, ENRC and Gazprom, lost 33 % and 10 % respectively in the reporting period. The value of Ukrainian electricity shares in local currency decreased by 26 %. However, these companies still represent a minor share of today's portfolio and have a limited impact on the NAV. The Ukrainian currency Hryvna and the US dollar slightly strengthened and gained about 2 % against the CHF in the reporting period. Also the British £ gained almost 3 % against the CHF and therefore reduced the Company's loss.

This recent development in portfolio valuation clearly reflects the risks inherent in emerging markets such as Ukraine, Russia or Kazakhstan and the associated volatility. The first half of 2012 has shown a continuation of high volatility in the international commodity markets, and the worldwide economic indicators demonstrate a mixed picture. Ukraine for example, coped fairly well with its challenges in the first half year 2012. Thanks to solid domestic consumption the Ukrainian GDP grew almost 2 % in this period. Also Russia's GDP, supported by strong private consumption, showed a 4.7 % year over year growth in the first half of 2012. Nevertheless, the continuing net capital outflow from both countries remains a major point of concern and will likely have an impact on GDP growth rates in the midterm. In addition, a further escalation of the Eurozone crisis, with the risk of a sizeable correction in commodity prices, and for the Ukraine in particular global steel prices, would also have a negative impact on these economies. However we believe that many of these risks and uncertainties are already accounted for in the current share price levels, and that our fundamental value investment approach will pay out at the time the current trouble spots start to normalize again. In fact, at this time at the beginning of September, the EEII NAV has stabilized around CHF 11.40, about 5 % below the June 30 value.

Although we are well aware, that the company's investment portfolio can continue to develop in a volatile manner we are keeping to our positions and our positive long term view of the energy and infrastructure markets in Eastern Europe.

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

	2012 Following IFRS presentation	2012 Representing the shareholders' economic interest	2011 Following IFRS presentation	2011 Representing the shareholders' economic interest
Treasury stock – at market value	–	2,578	–	6,635
Cash and other assets	1,063,124	1,063,124	13,364,131	13,364,131
Financial assets at fair value through profit or loss	17,434,242	17,434,242	34,879,158	34,879,158
Total assets	18,497,366	18,499,944	48,243,289	48,249,924
Total current liabilities	189,017	189,017	1,117,235	1,117,235
Share capital	15,275,100	15,275,100	15,275,100	15,275,100
Share premium	3,774,508	3,773,973	3,774,508	3,778,030
Treasury stock	(3,113)	–	(3,113)	–
(Loss carried forward)/retained earnings	(738,146)	(738,146)	28,079,559	28,079,559
Total shareholders' equity	18,308,349	18,310,927	47,126,054	47,132,689
Total liabilities and shareholders' equity	18,497,366	18,499,944	48,243,289	48,249,924
Total shares outstanding	–	1,527,510	–	1,527,510
Number of treasury shares	–	215	–	215
Net Asset Value per share	–	CHF 11.99	–	CHF 30.86

Interim IFRS Financial Statements

IFRS Statement of Financial Positions

as of June 30

in CHF (unaudited)	30.06.2012	31.12.2011
Assets		
Cash and cash equivalents	1,063,065	1,865,977
Total current assets	1,063,065	1,865,977
Financial Assets at fair value through profit or loss	17,434,242	27,870,569
Trade and other receivables	59	6,669
Short term loan	–	4,800,000
Other assets	–	26,594
Total non current assets	17,434,301	32,703,832
Total assets	18,497,366	34,569,809
Liabilities and shareholders' equity		
Accounts payable	63,365	65,285
Accrued expenses and other liabilities	123,156	225,500
Total current liabilities	186,521	290,785
Provision for taxes	2,496	–
Total non current liabilities	2,496	–
Share capital	15,275,100	15,275,100
Capital contribution reserve	3,774,508	3,774,508
Treasury stock	(3,113)	(3,113)
(Loss carried forward)/retained earnings	(738,146)	15,232,529
Shareholders' equity	18,308,349	34,279,024
Total liabilities and shareholders' equity	18,497,366	34,569,809

Interim IFRS Statement of Comprehensive Income

for the period from January 1st to June 30

in CHF (unaudited)	2012	2011
Operating income		
Interest income	14,208	14,374
Dividends	75,513	–
Realised gain on financial assets at fair value through profit or loss	–	3,432,184
Unrealised (loss)/gain on financial assets at fair value through profit or loss	(10,436,328)	3,090,607
Foreign exchange gain/(loss)	7,418	(951,515)
Net operating (loss)/gain	(10,339,189)	5,585,650
Operating expenses		
Management fees	110,000	115,000
Administrative fees	26,753	26,679
Directors fees	74,639	69,955
Professional fees	31,671	58,235
Other expenses	40,778	66,933
Bank charges and interest expenses	11,752	79,873
Loan interest	–	13,023
Capital tax expenses	(9,640)	1,117
Total operating expenses	285,953	430,815
(Loss)/profit before tax	(10,625,142)	5,154,835
Income taxes	–	466,866
Net (loss)/profit after tax/Total Comprehensive (loss)/income	(10,625,142)	4,687,969
Net earnings per share		
Net (loss)/profit	(10,625,142)	4,687,969
Weighted Average Number of shares (basic and diluted)	1,527,510	1,527,510
Net (loss)/profit per share – (basic and diluted)	(6.96)	3.07

Interim IFRS Cash Flow Statement

for the period from January 1st to June 30

in CHF (unaudited)	2012	2011
Operating activities		
(Loss)/profit before tax	(10,625,142)	5,154,835
Adjustments to reconcile profit/(loss) before tax to net cash flows		
Non-Cash:		
Interest income	(14,208)	(14,374)
Dividends	(75,513)	–
Foreign exchange (gain)/loss on cash and cash equivalents	(7,418)	951,515
Tax expenses	–	13,516
Unrealized loss/(gain) on financial assets at fair value through profit or loss	10,436,328	(3,090,607)
Realized (gain) on financial assets at fair value through profit or loss	–	(3,432,184)
Working capital adjustments		
Dividends received	75,513	–
Decrease/ (Increase) in other assets	33,204	(32,212)
(Decrease)/Increase in accounts payable	(1,921)	49,557
(Decrease)/Increase in accrued expenses and other liabilities	(99,848)	7,565
Income tax paid	–	–
Net cash flows used in operating activities	(279,005)	(392,389)
Investing activities		
Disposal of equity instruments	–	14,393,004
Interest received	794	14,374
Short term loan repayments	4,800,000	–
Short term loan interest received	13,414	–
Net cash flows from investing activities	4,814,208	14,407,378
Financing activities		
Dividend payment to shareholders	(5,345,533)	–
Repayment Shareholder loan	–	(936,600)
Shareholder loan interest paid	–	(13,023)
Net cash flows used in financing activities	(5,345,533)	(949,623)
(Decrease)/Increase in cash and cash equivalents	(810,330)	13,065,366
Cash and cash equivalents at the beginning of the year	1,865,977	1,198,265
Foreign exchange gain/(loss) on cash and cash equivalents	7,418	(951,515)
Cash and cash equivalents at the end of the period	1,063,065	13,312,116
Cash and cash equivalents consist of:		
Cash at banks	373,962	301,785
Short-term deposits	689,103	13,010,331
Cash and cash equivalents as defined for the cash flow statement	1,063,065	13,312,116

Interim IFRS Statement of Changes in Equity

in CHF (unaudited)	Share capital	Share premium*	Treasury stock	(Accumulated deficit)/retained earnings	Total equity
Balance as of January 1st, 2010	15,275,100	3,774,508	(3,113)	1,948,344	20,994,839
Net profit for the year/ Total comprehensive income	–	–	–	21,443,246	21,443,246
Balance as of December 31st, 2010	15,275,100	3,774,508	(3,113)	23,391,590	42,438,085
Net loss for the year/ Total comprehensive loss	–	–	–	(8,159,061)	(8,159,061)
Balance as of December 31st, 2011	15,275,100	3,774,508	(3,113)	15,232,529	34,279,024
Net loss for the period/ Total comprehensive loss	–	–	–	(10,625,142)	(10,625,142)
Dividend payment to shareholders				(5,345,533)	(5,345,533)
Balance as of June 30, 2012	15,275,100	3,774,508	(3,113)	(738,146)	18,308,349

*The reported capital contribution reserve in the Statutory Financial Statement of the Company per 31.12.2011 amounted to CHF 5,390,092. Thereof, with the beginning of the year 2012, the Federal Tax Administration accepted CHF 1,107,109 as capital contribution reserve as defined by Art. 5 paragraph 1^{bis} of the Swiss Federal Law on Anticipatory Tax. The difference of CHF 4,282,983 is based on the treatment of the costs of capital increase. The Federal Tax Administration has deducted these costs from the capital contribution reserve based on Art. 671 of the code of civile. This approach is not totally clear yet and it is possible that in future this practice of the Federal Tax Administration has to be revised.

Notes to the IFRS Financial Statements

as of June 30, 2012

// 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 2011 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, 2012		Balance as of June 30, 2012	
	Quantity	CHF	Quantity	CHF
Power generation companies				
Centrenerg	141,000	142,323	141,000	99,186
Dniproenerg	1,380	106,145	1,380	84,775
Donbasenerg	11,400	38,580	11,400	26,543
Kievenerg	13,400	13,954	13,400	22,516
Zakhidenerg	9,800	289,916	9,800	115,684
Ukrainian Oil & Gas Companies				
Ukrnafta	302,701	12,970,252	302,701	5,578,599
Ukrainian Oblenerg / Power Distribution Companies				
Cherkasyoblenerg	1,139,044	132,227	1,139,044	150,168
Dniprooblenerg	1,250	21,818	1,250	28,608
Krimenerg	155,000	23,826	155,000	27,445
Volynobelenerg	2,085,000	42,545	2,085,000	69,882
Zhytomyrblenerg	552,204	53,999	552,204	61,414
Total Ukrainian Investments		13,835,585		6,264,821
Other Investments				
Gazprom ADR	742,800	7,445,529	742,800	6,742,581
Eurasian Natural Resources Corp.	715,000	6,589,455	715,000	4,426,840
Total Other Investments		14,034,984		11,169,422
Total financial assets at fair value through profit or loss		27,870,569		17,434,242

// 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	30.06.2012		31.12.2011	
Financial Assets at fair value through profit or loss brought forward	27,870,569		42,749,371	
Purchases		–		6,415,885
Sale		–		(14,393,004)
Unrealised (loss)/gain on financial assets at fair value		(10,436,327)		(10,333,867)
Realised gain on financial assets at fair value		–		3,432,184
Total Financial Assets at fair value through profit or loss		17,434,242		27,870,569
Listed shares	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 7)	17,152,778	98	27,641,798	99
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 7)	281,464	2	228,771	1
Total	17,434,242	100	27,870,569	100
Ukraine	6,264,821	36	13,835,585	50
Russia	6,742,581	39	7,445,529	27
Kazakhstan	4,426,840	25	6,589,455	23
Total	17,434,242	100	27,870,569	100

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

in CHF	30.06.2012	31.12.2011
Financial Assets at fair value through profit or loss		
At fair value		
as of January 1 st	228,771	538,633
as of June 30 st	281,464	228,771
Gain in profit or loss	52,693	(309,862)
Total gain in other comprehensive income	52,693	(309,862)
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 0,5 % of the current Net Asset Value.

// Shares

Listed on Swiss Exchange (SWX) 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
www.eeii.ch

// Capital structure

As of June 30, 2012 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, 2012 Gehold SA, Geneva owned 92.41 % of the outstanding shares of the Company.

Organization, Related Parties, Manager and Address

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Manager

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Custodian

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Administrator

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Auditor

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Team of the Manager

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