



Eastern Energy & Infrastructure Invest

Interim Report as at June 30, 2018

Dear Shareholders

EEII (the "Company") is reporting a loss of CHF 0.5 mln for the period January – June 2018 (H1 2017: net loss of CHF 0.88 mln). While some of the Company's investments had improved notably in value during the past year, those positive developments have all but disappeared during the reporting period. Furthermore, most of the potential to improve the Company's operating efficiency has been implemented in the prior year. Therefore, the scope for further reductions of the cost base has been limited to a modest amount, with operating expenses for H1 2018 at CHF 200k (vs. H1 2017 at CHF 217k, and H1 2016 at CHF 285k). Overall, EEII's net asset value ("NAV") declined by 9.3% from CHF 3.54 as per 31.12.2017 to CHF 3.21 per share as per 30.6.2018.

The reported loss of CHF 0.5 mln can be split in two components: a) operating costs of CHF 0.2 mln and b) the change in the value of the Company's three main investments (Gazprom, KAZ Minerals and Ukrnafta), which negatively impacted the bottom line by CHF 0.31 mln.

Despite a positive price momentum in its main markets, Gazprom proved once again to be a difficult investment. While the MSCI World Energy Index locked in a gain of 7.1% in H1 2018, Gazprom's share price remained essentially flat. Uninspiring operational performance and renewed concerns about tightening sanctions weigh significantly on the shares. Unfortunately, there are no reasons to expect that the outlook for Gazprom is going to change significantly in the immediate future. KAZ Minerals had been the big comeback story in 2017. The company brought new copper production online and together with soaring copper prices, the share price

almost trebled. 2018 appears to be a year of consolidation, with the risk that KAZ might engage in costly M&A activity or copper prices start to reverse, depending on trends in the global economy. Ukrnafta is stuck in the middle of Ukrainian politics. The tax dispute with the government overshadows any prospects for this company with its huge unrealized potential. Instead of progressing, the company continues to experience setbacks as the State Fiscal Service acted on its own discretion to use Ukrnafta's 2017 tax payment to offset tax debt from previous periods. This move led to an instant rerating of Ukrnafta shares, which resulted in a drop of EEII's position in the company of CHF 0.3 mln.

Foreign exchange volatility had no material impact on the value of EEII's investment portfolio during H1 2018. Renewed weakness in the Ukrainian Hryvna (-7% vs. CHF) was compensated by both a slightly stronger USD and GBP against the Swiss currency.

Ukraine's tentative recovery continued during H1 2018, after growth picked up at the outset of the year. Domestic demand appears to have remained robust as inflationary pressures eased and labor market dynamics improved. Additionally, household lending surged in the first half of the year as the banking sector further stabilized. The IMF backed the country's plans for an anti-corruption court, but since the anti-corruption efforts of the current administration are lackluster at best, at least where its own interests are concerned, the impact of an anti-corruption court is likely to be minimal. The government recently extended the gas-price freeze until the beginning of September, once again failing to fulfill one of the IMF's

key conditions for releasing another tranche of funding in the coming months. Despite expected GDP growth of app. 3 % in 2018, downside risks remain massive as slow reform momentum and mounting political tensions domestically related to the upcoming elections in 2019. The Russian economy is expected to grow at a moderate pace (1.8 % in 2018). Higher oil prices are supporting the all-important energy sector. In addition, the unemployment rate remained at a multi-year low in June and retail sales picked up, buoyed by World Cup related spending. Fundamentals look positive for the remainder of the year. That said, high geopolitical uncertainty and the possibility of further economic sanctions remain key risks to the outlook.

Recent developments as outlined in this report confirm our intention to reassess the current investment strategy and to consider strategic options for EEI in order to optimize the value for our shareholders. As the Company successfully adopted an Opting-Out clause in its statutes at the recent AGM, the Board of Directors is now well equipped to explore different projects at hand.

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 of the Board of Directors

Determination of the Net Asset Value

as of June 30

in CHF

	2018	2018	2017	2017
	Following IFRS presentation	Representing the shareholders, economic interest	Following IFRS presentation	Representing the shareholders, economic interest
Cash and other assets	67,403	67,403	150,323	150,323
Financial assets at fair value through profit or loss	5,590,124	5,590,124	4,916,988	4,916,988
Total assets	5,657,527	5,657,527	5,067,311	5,067,311
Total current liabilities	749,737	749,737	617,357	617,357
Share capital	10,845,321	10,845,321	10,845,321	10,845,321
(Accumulated deficit)	(5,937,529)	(5,937,529)	(6,395,367)	(6,395,367)
Total shareholders' equity	4,907,792	4,907,792	4,449,954	4,449,954
Total liabilities and shareholders' equity	5,657,527	5,657,527	5,067,311	5,067,311
Total shares outstanding	–	1,527,510	–	1,527,510
Number of treasury shares	–	–	–	–
Net Asset Value per share		CHF 3.21		CHF 2.92

Interim IFRS Financial Statements

IFRS Statement of Financial Positions

as of June 30

in CHF (unaudited)	Notes	30.06.2018	31.12.2017
Assets			
Cash and cash equivalents		67,403	44,072
Other assets		–	35,800
Total current assets		67,403	79,872
Financial Assets at fair value through profit or loss	6	5,590,124	5,901,144
Total non current assets		5,590,124	5,901,144
Total assets		5,657,527	5,981,016
Liabilities and shareholders' equity			
Accounts payable		–	15,616
Accrued expenses and other liabilities		79,339	66,222
Shareholder Loan	5	670,398	488,120
Total current liabilities		749,737	569,958
Provision for employee benefits		–	–
Total non current liabilities		–	–
Share capital		10,845,321	10,845,321
(Accumulated deficit)		(5,937,529)	(5,434,263)
Shareholders' equity		4,907,792	5,411,058
Total liabilities and shareholders' equity		5,657,527	5,981,016

Interim IFRS Statement of Income

for the period from January 1st to June 30

in CHF (unaudited)	Notes	2018	2017
Operating income			
Interest income		1	42
Dividends		22,699	998
Unrealised loss on financial assets at fair value through profit or loss	7	(311,019)	(664,384)
Foreign exchange loss		(15,000)	(1,835)
Net operating loss		(303,319)	(665,179)
Operating expenses			
Management & Advisory fees		57,947	77,401
Administrative fees		26,778	26,778
Directors fees		19,493	17,235
Personnel cost		7,294	7,166
Professional fees		24,343	36,583
Other expenses		50,834	45,162
Bank charges and interest expenses		13,067	7,004
Capital tax expense		190	190
Total operating expenses		199,946	217,519
Loss before tax		(503,265)	(882,698)
Income taxes		–	–
Net loss after tax		(503,265)	(882,698)
Net earnings per share			
Net loss		(503,265)	(882,698)
Weighted Average Number of shares (basic and diluted)		1,527,510	1,527,510
Net loss per share (basic and diluted)		(0.33)	(0.58)

Interim IFRS Statement of Comprehensive Income

in CHF (unaudited)	2018	2017
Net loss for the year	(503,265)	(882,698)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	–	–
Income taxes on remeasurement of post employment benefit obligations	–	–
Total other comprehensive income	–	–
Total comprehensive loss for the year	(503,265)	(882,698)

Interim IFRS Cash Flow Statement

for the period from January 1st to June 30

in CHF	2018	2017
Operating activities		
Loss before tax	(503,265)	(882,698)
Adjustments to reconcile loss before tax to net cash flows		
Interest income	(1)	(42)
Dividends	(22,699)	(998)
Foreign exchange loss on cash and cash equivalents	15,000	1,835
Loan interest expenses	7,277	4,549
Unrealized losses on financial assets at fair value through profit or loss	311,019	664,384
Working capital adjustments		
Dividends received	22,699	998
Decrease/(increase) in other assets	35,800	(20,557)
Decrease in accounts payable	(15,725)	(8,941)
Increase in accrued expenses and other liabilities	13,225	2,287
Net cash flows used in operating activities	(136,670)	(239,183)
Investing activities		
Interest received	1	42
Net cash flows from investing activities	1	42
Financing activities		
Increase Shareholder loan	175,000	275,000
Net cash flows from financing activities	175,000	275,000
Decrease in cash and cash equivalents	38,331	35,859
Cash and cash equivalents at the beginning of the year	44,072	87,132
Foreign exchange (loss) on cash and cash equivalents	(15,000)	(1,835)
Cash and cash equivalents at the end of the period	67,403	121,156
Cash and cash equivalents consist of:		
Cash at banks	67,403	121,156
Short-term deposits	–	–
Cash and cash equivalents as defined for the cash flow statement	67,403	121,156

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 gain for the period	–	–	78,405	78,405
Other comprehensive income (OCI)				
Defined benefit cost recognised in OCI	–	–	–	–
Total comprehensive gain for the year	–	–	78,405	78,405
Balance as of December 31st, 2017	10,845,321	–	(5,434,263)	5,411,058
Net loss for the period	–	–	(503,265)	(503,265)
Other comprehensive income (OCI)				
Defined benefit cost recognised in OCI	–	–	–	–
Total comprehensive loss for the period	–	–	(503,265)	(503,265)
Balance as of June 30th, 2018	10,845,321	–	(5,937,529)	4,907,792
Net loss for the period	–	–	–	–

Notes to the IFRS Financial Statements

as of June 30, 2018

// 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 2017 financial statements and are in compliance with IAS 34 interim financial reporting. IFRS 9 and IFRS 15 guidelines have been implemented for the first time, which did not trigger any adjustments.

// Note 2 – Fair value of the investment portfolio

The fair value measurement of the Company utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into three different levels (the “fair value hierarchy”) based on how observable the inputs used and reflect the methods of computation and valuation as used in the 2017 financial statements.

// 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:

	2018	2017
USD	0.99330	0.95860
UAH	0.03776	0.03671
GBP	1.30800	1.24530

// 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 175,000. 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, 2018

Financial assets at fair value through profit or loss	Balance as of January 1 st , 2018		Balance as of June 30, 2018	
	Quantity	CHF	Quantity	CHF
Ukrainian Energos/Power Generation Companies				
Centrenergo	141,000	62,433	141,000	81,197
Dniproenergo	1,380	23,538	1,380	25,438
Donbasenergo	11,400	7,270	11,400	9,040
Kievenenergo	13,400	13,129	13,400	14,188
Zakhidenergo	9,800	44,674	9,800	48,279
Ukrainian Oil & Gas Companies				
Ukrnafta	302,701	1,491,358	302,701	1,188,773
Ukrainian Oblenergos/Power Distribution Companies				
Cherkasyoblenergo	1,139,044	57,245	1,139,044	43,977
Dniprooblenergo	1,250	9,609	1,250	7,080
Krimenergo	155,000	5,674	155,000	4,389
Volynobelenergo	2,085,000	19,226	2,085,000	14,329
Zhytomyoblenergo	552,204	14,300	552,204	8,168
Total Ukrainian Investments		1,748,456		1,444,859
Other Investments				
Gazprom ADR	742,800	3,194,837	742,800	3,246,422
KAZ Minerals	81,517	957,851	81,517	898,842
Total Other Investments		4,152,688		4,145,265
Total financial assets at fair value through profit or loss		5,901,144		5,590,124

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

in CHF	30.06.2018		31.12.2017	
Financial Assets at fair value through profit or loss brought forward	5,901,144		5,581,372	
Purchase		–		–
Sale		–		–
Unrealised gain on financial assets at fair value		78,682		973,350
Unrealised loss on financial assets at fair value		(389,702)		(653,578)
Realised gain on financial assets at fair value		–		–
Financial Assets at fair value through profit or loss		5,590,124		5,901,144
Listed shares	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 13)	5,519,260	99	5,804,698	98
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)	70,864	1	96,446	2
Total	5,590,124	100	5,901,144	100
Ukraine	1,444,859	26	1,748,456	30
Russia	3,246,422	58	3,194,837	54
Kazakhstan	898,842	16	957,851	16
Total	5,590,124	100	5,901,144	100

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

in CHF	30.06.2018	31.12.2017
Financial Assets at fair value through profit or loss		
At fair value		
as of January 1 st	96,446	77,417
Gain in profit or (loss)	(25,582)	19,029
as of June 30	70,864	96,446

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 57,947 for the first half of 2018.

// Shares

Listed on Swiss Exchange (SWX) on January 21st, 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 30th, 2018 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 30th, 2018 Gehold SA, Geneva owned 92.41 % of the outstanding shares of the Company.

Organization, Related Parties, Management, Advisor 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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