



Eastern Energy & Infrastructure Invest

Interim Report as at June 30, 2019

Dear Shareholders

EEII (the "Company") is reporting a profit of CHF 2.2 mln for the period January–June 2019 (H1 2018: net loss of CHF 0.5 mln). A major revaluation of EEII's largest equity holding, Gazprom, was the driver for the extraordinary improvement of the H1 2019 results. Gazprom shares gained 65 % in USD during the first half of 2019, resulting in unrealized gains of CHF 2.1 mln. The company continued to operate with a tight budget. Operating expenses increased modestly by 8.5 % (H1 2019: CHF 217k vs. H1 2018 CHF 200k) due to higher interest expenses and one-off costs related to the change of its custodian in Ukraine. Overall, EEII's net asset value ("NAV") surged by 46.7 % from CHF 3.15 as per December 31st, 2018 to CHF 4.62 per share as per June 30th, 2019.

The first half of 2019 provided a positive environment for risk assets. A US monetary policy U-turn and hopes for a comprehensive trade deal between the US and China propelled equity markets sharply higher, with many global indices recording all-time highs. The MSCI World Index gained 15.6 % and, more relevant to EEII's investment portfolio, the MSCI World Energy Index confirmed the positive backdrop with a gain of 10.7 %. In the second quarter, Gazprom surprised investors with an unexpected change in its dividend policy. Management announced to raise dividends to more than twice the payout of last year. The market responded with an immediate rerating of 16 %, continued by further gains. Based on the new trading range around USD 7 per share, the dividend yield is still highly attractive at 7 %, which should provide a sustainable floor going forward. KAZ Minerals continued

its slow recovery from the ill-received purchase of a billion Dollar copper project in Russia last year, although 1H profits fell by 18 % to USD 227 mln due to lower metals prices. Production of copper and gold remains on track to meet the company's targets for 2019. Despite uncertainties related to trade pressures and a global growth slowdown, the long-term outlook for copper is very positive. Ukrnafta reported poor results for the first half of 2019. The company also announced a surprising change of the management as CEO Mark Rollins was replaced by an interim head with no further explanations. Despite these negative headlines, the shares traded higher (+14 % YTD) as speculation of a special dividend led to investor demand.

Ukraine's economy has been on a slow-but-steady growth path throughout the first half of 2019. The focus was on the political shakeup with the massive election victory of Volodymyr Zelensky, first with his presidential bid in April, followed by parliamentary elections in July. The new president now has a strong mandate to push through sweeping reforms, crack corruption and move the country forward. Given his lack of political experience it remains an open question if he will succeed, but so far, financial markets credit him with the benefit of doubt. The local currency Hryvna has been stable and yields of USD denominated Ukrainian government bonds have dropped significantly, with the yield of 5 year maturities having fallen from 11.5 % at the beginning of the year to 6.4 % by mid-year. In Russia, lower oil prices and higher taxes are slowing economic growth. The medium-term outlook

remains lackluster unless deeper structural reforms are tackled. As the IMF pointed out in its recent country report: "...ambitious structural reforms will be important to raise growth. The government should prioritize the creation of a more vibrant private sector and reduce the footprint of the state..." Given the track record of the current administration, expectations for a fundamental change in economic policy are low. The country remains dependent on the prospects of its outsized commodity complex.

The positive results this year are highly supportive for our assessment of various strategic options going forward. With the successful switch of our Ukrainian custodian, we are well prepared for any reorganization and/or investment decisions regarding our Ukrainian holdings.

To optimize the value for our shareholders remains our primary focus in the next few months. 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

	2019	2019	2018	2018
	Following IFRS presentation	Representing the shareholders, economic interest	Following IFRS presentation	Representing the shareholders, economic interest
Cash and other assets	163,683	163,683	67,403	67,403
Financial assets at fair value through profit or loss	7,846,488	7,846,488	5,590,124	5,590,124
Total assets	8,010,171	8,010,171	5,657,527	5,657,527
Total current liabilities	974,289	974,289	749,737	749,737
Share capital	10,845,321	10,845,321	10,845,321	10,845,321
(Accumulated deficit)	(3,809,439)	(3,809,439)	(5,937,529)	(5,937,529)
Total shareholders' equity	7,035,882	7,035,882	4,907,792	4,907,792
Total liabilities and shareholders' equity	8,010,171	8,010,171	5,657,527	5,657,527
Total shares outstanding	–	1,527,510	–	1,527,510
Number of treasury shares	–	–	–	–
Net Asset Value per share		CHF 4.62		CHF 3.21

Interim IFRS Financial Statements

IFRS Statement of Financial Positions

as of June 30

in CHF (unaudited)	Notes	30.06.2019	31.12.2018
Assets			
Cash and cash equivalents		163,683	105,509
Other assets		–	75,413
Total current assets		163,683	180,922
Financial Assets at fair value through profit or loss	6	7,846,488	5,421,685
Total non current assets		7,846,488	5,421,685
Total assets		8,010,171	5,602,607
Liabilities and shareholders' equity			
Accounts payable		7,639	5,588
Accrued expenses and other liabilities		67,131	50,500
Shareholder Loan	5	899,519	729,290
Total current liabilities		974,289	785,378
Provision for employee benefits		–	–
Total non current liabilities		–	–
Share capital		10,845,321	10,845,321
(Accumulated deficit)		(3,809,439)	(6,028,092)
Shareholders' equity		7,035,882	4,817,229
Total liabilities and shareholders' equity		8,010,171	5,602,607

Interim IFRS Statement of Income

for the period from January 1st to June 30

in CHF (unaudited)	Notes	2019	2018
Operating income			
Interest income		–	1
Dividends		4,947	22,699
Unrealised gain/(loss) on financial assets at fair value through profit or loss	7	2,424,803	(311,019)
Foreign exchange gain/(loss)		5,438	(15,000)
Net operating gain/(loss)		2,435,188	(303,319)
Operating expenses			
Management & Advisory fees		57,947	57,947
Administrative fees		26,778	26,778
Directors fees		18,357	19,493
Personnel cost		7,301	7,294
Professional fees		32,784	24,343
Other expenses		57,983	50,834
Bank charges and interest expenses		15,200	13,067
Capital tax expense		185	190
Total operating expenses		216,535	199,946
Gain/(loss) before tax		2,218,653	(503,265)
Income taxes		–	–
Net gain/(loss) after tax		2,218,653	(503,265)
Net earnings per share			
Net gain/(loss)		2,218,653	(503,265)
Weighted Average Number of shares (basic and diluted)		1,527,510	1,527,510
Net gain/(loss) per share (basic and diluted)		1.45	(0.33)

Interim IFRS Statement of Comprehensive Income

in CHF (unaudited)	2019	2018
Net gain/(loss) for the year	2,218,653	(503,265)
Other comprehensive income	–	–
Total comprehensive gain/(loss) for the year	2,218,653	(503,265)

Interim IFRS Cash Flow Statement

for the period from January 1st to June 30

in CHF	2019	2018
Operating activities		
Gain/(loss) before tax	2,218,653	(503,265)
Adjustments to reconcile loss before tax to net cash flows		
Interest income	–	(1)
Dividends	(4,947)	(22,699)
Foreign exchange (gain)/loss on cash and cash equivalents	(5,438)	15,000
Loan interest expenses	10,229	7,277
Unrealized (gains)/losses on financial assets at fair value through profit or loss	(2,424,803)	311,019
Working capital adjustments		
Dividends received	4,947	22,699
Decrease in other assets	75,413	35,800
Increase/(decrease) in accounts payable	2,051	(15,725)
Increase in accrued expenses and other liabilities	16,631	13,225
Net cash flows used in operating activities	(107,264)	(136,670)
Investing activities		
Interest received	–	1
Net cash flows from investing activities	–	1
Financing activities		
Increase Shareholder loan	160,000	175,000
Net cash flows from financing activities	160,000	175,000
Increase in cash and cash equivalents	52,736	38,331
Cash and cash equivalents at the beginning of the year	105,509	44,072
Foreign exchange gain/(loss) on cash and cash equivalents	5,438	(15,000)
Cash and cash equivalents at the end of the period	163,683	67,403
Cash and cash equivalents consist of:		
Cash at banks	163,683	67,403
Short-term deposits	–	–
Cash and cash equivalents as defined for the cash flow statement	163,683	67,403

The financing cash flow of CHF 160,000 relates to the increased shareholder loan. The balance sheet amount of CHF 899,519 includes accrued interest.

Interim IFRS Statement of Changes in Equity

in CHF (unaudited)	Share capital	Share premium	Accumulated deficit	Total equity
Balance as of January 1st, 2018	10,845,321	–	(5,434,263)	5,411,058
Net loss for the period	–	–	(503,265)	(503,265)
Balance as of June 30th, 2018	10,845,321	–	(5,937,529)	4,907,792
Balance as of December 31st, 2018	10,845,321	–	(6,028,092)	4,817,229
Net gain for the period	–	–	2,218,653	2,218,653
Total comprehensive gain for the period	–	–	2,218,653	2,218,653
Balance as of June 30th, 2019	10,845,321	–	(3,809,439)	7,035,882

Notes to the IFRS Financial Statements

as of June 30, 2019

// 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 2018 financial statements and are in compliance with IAS 34 interim financial reporting.

// 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 2018 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:

	2019	2018
USD	0.97400	0.99330
UAH	0.03738	0.03776
GBP	1.23490	1.30800

// 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 160,000. 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, 2019

Financial assets at fair value through profit or loss	Balance as of January 1 st , 2019		Balance as of June 30, 2019	
	Quantity	CHF	Quantity	CHF
Ukrainian Energos/Power Generation Companies				
Centrenergo	141,000	71,378	141,000	61,665
Donbasenergo	11,400	12,874	11,400	11,207
Kievenergo	13,400	4,269	13,400	4,508
DTEK Kyivski Electromerezhi	13,400	–	13,400	–
Ukrainian Oil & Gas Companies				
Ukrnafta	302,701	1,500,212	302,701	1,810,367
Ukrainian Oblenergos/Power Distribution Companies				
Cherkasyoblenergo	1,139,044	15,121	1,139,044	15,966
DTEK Dnipro Grids	1,250	2,898	1,250	3,060
DTEK Krimenergo	155,000	933	155,000	985
Volynobelenergo	2,085,000	11,810	2,085,000	12,470
Zhytomyroblenergo	552,204	17,594	552,204	18,577
Total Ukrainian Investments		1,637,089		1,938,806
Other Investments				
Gazprom OAO ADR	742,800	3,240,513	742,800	5,300,267
KAZ Minerals PLC	81,517	544,083	81,517	607,415
Total Other Investments		3,784,596		5,907,682
Total financial assets at fair value through profit or loss		5,421,685		7,846,488

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

in CHF	30.06.2019		31.12.2018	
Financial Assets at fair value through profit or loss brought forward		5,421,685		5,901,144
Purchase		–		–
Sale		–		–
Unrealised gain on financial assets at fair value		2,436,183		73,268
Unrealised loss on financial assets at fair value		(11,380)		(483,619)
Realised gain on financial assets at fair value		–		–
Financial Assets at fair value through profit or loss		7,846,488		5,421,685
Listed shares	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 13)	7,790,922	99	5,369,060	99
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)	55,566	1	52,625	1
Total	7,846,488	100	5,421,685	100
Ukraine	1,938,806	25	1,637,089	30
Russia	5,300,267	67	3,240,513	60
Kazakhstan	607,415	8	544,083	10
Total	7,846,488	100	5,421,685	100

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

in CHF	30.06.2019	31.12.2018
Financial Assets at fair value through profit or loss		
At fair value		
as of January 1 st	52,625	96,446
Reclassification Level 1	–	7,080
Reclassification Level 2	–	14,188
Gain/(loss) in profit or loss	2,941	(65,089)
as of June 30	55,566	52,625

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 2019.

// Shares

Listed on Swiss Exchange (SWX) on January 21st, 1999 (Valor 716295). 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, 2019 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, 2019 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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Bleicherweg 45
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Team of the Advisor

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

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