



## Half Year report

**1 January – 30 June 2013**

- IFRS NAV at the end of the period was SEK 834 million (1,382) and SEK 19.49 per share (24.39).
- Loss for the period amounted to SEK -445 million (-425) and SEK -9.46 per share (-7.49).



## **EOS Russia**

EOS Russia was founded in the spring of 2007 in order to capitalize on investment opportunities arising as a result of the deregulation, restructuring and privatization of the Russian electricity sector.

EOS Russia AB is the Group's parent company and is headquartered in Stockholm, Sweden. EOS Russia Ltd is a subsidiary of EOS Russia AB and is located in Limassol, Cyprus. All investments are conducted by the subsidiary, which holds the complete investment portfolio of EOS Russia. EOS Russia was founded in its present form in May 2007 when the company decided to carry out a directed share issue to a number of institutional investors, paid for in kind or in cash. The company listed on First North on June 25, 2007.

## **Russian electricity industry reform**

A comprehensive reform program is gradually being implemented in the Russian electricity sector.

The reason for the reform is the considerable investment need that has emerged as a result of rapidly increased electricity demand, wear-out of the assets and the need to increase efficiency. One of the key goals of the reform is to ensure an attractive climate in order to facilitate the major new investments required to satisfy the future need for power generation, as well as associated distribution and transmission grids.

## Operational and financial results

### Group

EOS recorded a net loss from investing activities of SEK -396 million (-408).

Operating expenses amounted to SEK -16.8 million (-16.4). Net financial items for the period amounted to SEK -32.6 million (0.0). Net financial items include interest income of SEK 0.1 million (0.1) and interest expenses totaling SEK 0.1 million (0.0). SEK -32.5 million are costs related to the synthetic share repurchase program.

The loss for EOS during the period was SEK -445 million (-425). Loss per share was SEK -9.46 (-7.49). Total comprehensive income for the period was SEK -422 million (-422).

EOS' net asset value at June 30<sup>th</sup> 2013 was SEK 834 million (1,382). The net asset value was impacted by exchange rate differences in the translation reserve of SEK -294 million (-227).

### Parent Company

The parent company's income for the period amounted to SEK 7.2 million (6.2). Operating expenses amounted to SEK -10.9 (-8.8) million for the period. Net financial items amounted to SEK -440.1 million (-379.7) for the period of which SEK -411.1 (-381.6) million is a write-down of shares in subsidiaries. The loss for the period was SEK -443.8 million (-382.3).

The total number of shares outstanding at June 30, 2013 was 42,805,556 (56,673,177).

## EOS Russia's portfolio

EOS' investment strategy is to focus on companies within the power utilities sector in Russia with the best relative value as perceived by the Group.

Changes in the portfolio composition during the second quarter are shown in the table below:

Share of EOS portfolio	March 31st 2013	June 30th 2013	Change
Thermal generation	0,1%	0,1%	-
Distribution	99,0%	99,0%	-
Transmission	0,6%	0,6%	-
Integrated	0,3%	0,3%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	

As per June 30, 2013, EOS' portfolio consisted of the assets listed in the table below:

Assets June 30th, 2013	Market value	
	MSEK	MUSD
Thermal generation	1	0
Distribution	805	120
Transmission	4	1
Integrated	3	0
<b>Total</b>	<b>812</b>	<b>121</b>

\* SEK/USD 6.7136

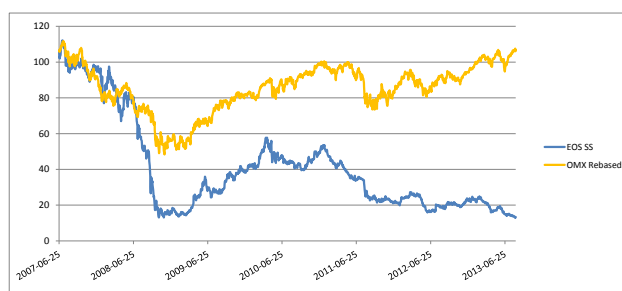
The fair value of the portfolio of shares is estimated with a model based on quoted mid-prices, because the official markets have been assessed not to be active in the sense that the quoted prices represent actual transactions.

## EOS Russia's share price development

The closing price of EOS share at June 28, 2013 was SEK 15 corresponding to a decrease during the year of 34.8% (the OMX Stockholm 30 index gained 4.2% during the same period).

EOS share price decreased by 87.5% between June 25, 2007 and August 16, 2013 in comparison to the OMX Stockholm 30 Index that gained by 0.4% during the same period.

**Share price development June 25, 2007 – August 16, 2013**  
**EOS Russia AB (EOS SS) vs. OMX S30 index**



Source: Bloomberg

## Other information

### Organization

The average number of employees in the group as of June 30, 2013 was three (4), of which two (2) were employed by the parent company.

### Related party transactions

#### Group

With regard to the management fee under the management advisory agreement with the two founders remaining with EOS Russia, covering the years 2013-2016, described below under accounting principles, the group and the group company EOS Russia (Cyprus) Ltd has as of June 30 a liability of SEK 0.7 million (0) and has during the period recognised expense of SEK 5.5 million (0). With regard to the performance fee the group and the group company EOS Russia (Cyprus) Ltd has as of June 30 accrued a provision of SEK 1.5 million (0) and has during the period recognised expense of SEK 1.5 million (0). The expense recognised for the performance fee is, in accordance with accounting principles in IFRS 2 Share-based payments, front-end loaded, see description below under accounting principles.

#### Parent company

EOS Russia AB has not granted any loans, warranties or guarantees to or for the benefit of board members or management. No agreements on benefits to board members or management following the completion of their respective assignment exist. None of the board members or management has any direct or indirect participation in business transactions with the group, which are or were unusual in nature or with regards to terms, and which occurred in the current or previous fiscal year.

### Provisions, contingent assets/liabilities and pledged assets

Apart from what has already been explained under *“Related party transactions”*, no provisions have been accounted for. No contingent assets/liabilities or pledged assets exists for the Group or Parent company as of 30 June 2013.

## Risks

### Group

Almost all the group's assets are invested in shares of Russian power utility companies with no diversification in country or sector risk. The main part of the group's assets is invested in shares on the Russian market. Russian securities trading legislation is more rudimentary than in many other countries, and there are few effective directives or requirements for disclosures about offers, sales or equity trading. The stock market is less liquid and more volatile in Russia than the United States or Western Europe. As a result, the company's investment portfolio may exhibit greater price volatility and poorer liquidity than one that focuses on securities of listed companies in more highly developed countries.

A large percentage of securities transactions are brokered outside the regulated exchanges. The legislation covering fraud and insider trading is less developed and the market's disciplinary board lacks the resources to enforce the legislation that has been passed.

### Parent Company

The risks associated with the activities for the group may also affect the parent company indirectly via the ownership of the subsidiary. The shares in the parent company are issued and traded in SEK and the group investments are held in USD or Russian Rubles, hence the parent company is subject to currency exchange risks. EOS policy is not to hedge such currency exposure.

EOS Russia is also exposed to other risks such as legal and political. For more information about EOS' risk exposure, please see the risk section of the 2012 annual report.

## Significant events during Q2

At the EOS AB annual general meeting on April 10 2013 the following board proposals were adopted:

- To reduce the share capital by SEK 2,789,678 by redemption of 412,963 shares repurchased under the synthetic buyback program.
- To increase the company's share capital by SEK 2,790,000 through a bonus issue by transferring funds from the company's unrestricted equity without issuing new shares.
- To renew the boards authorization to resolve on synthetic buybacks of own shares to a maximum of 29.9 per cent of all shares in the company prior to the next annual general meeting.

## Compliance with rules and regulations

EOS Russia reports its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS). This interim report was prepared in accordance with IAS 34 Interim Financial Reporting and relevant parts of the Annual Accounts Act.

The parent company applies the same accounting principles as the group, but taking into consideration RFR 2 Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. In the Company's interim reporting the Annual Accounts Act chapter 9 is applied.

The same accounting principles have been applied as in the Annual Report for 2012 – in the accounts of both the Group and the Company.

For more detailed information about the principles used for the Group and the Company, please refer to the Annual Report 2012. Unless otherwise indicated, all amounts are rounded off to the nearest thousand SEK. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers.

## Accounting principles for new management advisory agreement

After the end of 2012 the preference shares previously held by the founders and CEO were transferred from the holders to EnergyO Solutions Russia AB (publ). Instead, a new management advisory agreement specifies the conditions for compensation, for 2013-2016, to the two founders remaining with EOS Russia. The management advisory agreement consists of two main parts – a management fee equal to a monthly payment of 1/12 % of NAV, and an annual performance fee equal to 5 % of the increase in market capitalisation over and above the highest market capitalisation in the end any previous year ('high water mark'). The initial high watermark is market capitalisation at 2012 year-end. The performance fee and high water mark are adjusted for effects of capital distribution and contribution.

The management fee is recognised as expense in the month when it is earned. The four expected payments of the performance fee, after each of the years 2013-2016, are treated as four different parts, in accordance with IFRS 2 Share-based payments. The vesting period and recognition of expense begins as of the start of the contract period, 1 January 2013, for all four parts. The end of the vesting period and recognition of expense is the end of each of the four years.

This is called 'graded vesting' and it is important to note that an effect is that expenses are front-end loaded over the four-year period; since the payment relating to 2013 is recognised in full as expense in 2013, the payment relating to 2014 is recognised as expense with 50 % in each of the years 2013 and 2014, the payment relating to 2015 is recognised as expense with 33 % in each of the years 2013-2015, the payment relating to 2016 is recognised as expense with 25 % in each of the years 2013-2016. If the total fair value would be stable over time approximately half of the expenses would be recognised in 2013, a quarter in 2014, and the remainder in 2015 and 2016. Differences between expected and actual and changes in the expected development of market capitalisation may, however, lead to material changes in the total fair value and thereby in the level of expenses recognised over time.

Monte Carlo simulation is used to estimate the fair values of each of the four parts. The fair values are remeasured at each reporting date and effects of changes in fair value are recognised in profit or loss together with the effect of the accrual of the liability over the vesting period. A final remeasurement is made on the settlement date.

### ***Synthetical repurchases of own shares (swap agreement)***

Within the framework of the synthetical repurchase program, EOS enters into a swap agreement with a Counterparty. The swap agreement governs the relationship between EOS and the Counterparty. According to the swap agreement the Counterparty purchases EOS shares on the market with a maximum volume of 29.9% of the currently outstanding number of EOS shares and the swap agreement is subsequently settled at the unilateral choice of EOS either (i) by gross settlement provided that the Annual Meeting confirms that the share capital should be reduced or (ii) by settling the net amount between the purchase price paid by the Counterparty and the current market price of the shares. In the net settlement alternative EOS bears the up- and downside risk of the development of the EOS share price. For the performed services the Counterparty receives interest and a fee on EOS shares acquired. The fair value of swap agreement is accounted for as a current derivative asset or liability in the Company Balance Sheet and the Consolidated Statement of Financial Position and the changes in fair values of the agreement as a finance income or finance expense in the Company Income Statement and the Consolidated Statement of Comprehensive Income.

### ***Fair value of the investments in shares***

The fair value of the investments in shares is estimated with a model based on quoted mid-prices, because (i) the main transactions in the shares do not take place on the official markets but OTC and (ii) the market has been assessed not to be active in the sense that the quoted prices represent actual transactions.

## **Fair value measurement of financial instruments**

In the table below information is presented regarding the financial instruments that have been accounted for at fair value using the fair value method. The numbers are based on the same accounting- and valuation policies as used in the company's 2012 annual report. The company uses a valuation method exclusively based on observable market data (level 2). For other assets and liabilities that are not measured at fair value, the carrying amount is considered to reflect the fair value because the remaining maturity is generally short.

<i>In thousands of SEK</i>	2013-06-30		
	<b>Level 2</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>			
Other receivables	-	3 464	3 464
Shares and participations	812 295	-	812 295
Cash and cash equivalents	-	18 103	18 103
<b>Balance at June 30</b>	<b>812 295</b>	<b>21 567</b>	<b>833 862</b>

<i>In thousands of SEK</i>	2013-06-30		
	<b>Level 2</b>	<b>Other</b>	<b>Total</b>
<b>Liabilities</b>			
Trade and other payables	-	930	930
Accrued expenses	-	2 218	2 218
Other payables	-	1 015	1 015
<b>Balance at June 30</b>	<b>0</b>	<b>4 163</b>	<b>4 163</b>

Stockholm August 23, 2013  
EOS Russia AB (publ)  
Reg nr 556694-7684

Ulf-Henrik Svensson  
CEO

*This Interim report has not been subject to review by the company's auditors*

## Financial calendar

- 2013-11-06 Interim report 1 January – 30 September 2013
- 2014-02-19 Year end report 1 January – 31 December

Reports and Press Releases in English are available on EOS' web site:

**[www.eos-russia.com](http://www.eos-russia.com)**

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## Consolidated Income Statement and Statement of Comprehensive Income, in Summary

<i>In thousands of SEK</i>	Apr 1 - Jun 30		Jan 1 - Jun 30	
	2013	2012	2013	2012
Net change in fair value of securities	-324 202	-977 368	-395 580	-408 315
Dividends	0	0	0	9
<b>Net profit/loss - Investing activities</b>	<b>-324 202</b>	<b>-977 368</b>	<b>-395 580</b>	<b>-408 306</b>
Operating expenses*	-5 341	5 352	-16 811	-16 373
<b>Result from operating activities</b>	<b>-329 543</b>	<b>-972 016</b>	<b>-412 392</b>	<b>-424 678</b>
Finance income	14 421	28	56	52
Finance expenses	-32 492	-11	-32 640	-25
<b>Profit/loss before income tax</b>	<b>-347 613</b>	<b>-971 999</b>	<b>-444 976</b>	<b>-424 651</b>
Income tax expense	0	0	0	0
<b>Profit/loss for the period</b>	<b>-347 613</b>	<b>-971 999</b>	<b>-444 976</b>	<b>-424 651</b>
<b>Other Comprehensive Income for the period</b>				
<i>Items that have been or may be recycled to profit/loss for the period</i>				
Translation differences	23 903	91 310	22 694	3 036
<b>Total other Comprehensive Income for the period</b>	<b>23 903</b>	<b>91 310</b>	<b>22 694</b>	<b>3 036</b>
<b>Total Comprehensive Income for the period</b>	<b>-323 711</b>	<b>-880 689</b>	<b>-422 283</b>	<b>-421 615</b>
<b>Attributable to equity holders of the Company</b>				
Profit/loss for the period	-347 613	-971 999	-444 976	-424 651
Total Comprehensive Income for the period	-323 711	-880 689	-422 283	-421 615
<b>Earnings per share</b>				
basic (SEK)	-8,10	-17,15	-9,46	-7,49
diluted (SEK)	-8,10	-17,15	-9,46	-7,49

\* see note 1 for detailed information

## Consolidated Statement of Financial Position

	Jun 30	Dec 31
<i>In thousands of SEK</i>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Property, plant and equipment	5 301	5 237
<b>Total non-current assets</b>	<b>5 301</b>	<b>5 237</b>
Income tax receivables	40	26
Prepaid expenses and accrued income	918	1 084
Other receivables	4 103	290 605
Shares and participations	812 295	1 226 029
Cash and cash equivalents	18 103	41 041
<b>Total current assets</b>	<b>835 459</b>	<b>1 558 784</b>
<b>TOTAL ASSETS</b>	<b>840 760</b>	<b>1 564 021</b>
<b>Equity and liabilities</b>		
<b>EQUITY</b>		
Share capital	291 953	291 706
Other contributed equity	4 263 746	4 557 834
Reserves	-293 742	-316 436
Retained earnings, including profit/loss for the period	-3 427 468	-2 982 492
<b>Equity attributable to equity holders of EOS AB</b>	<b>834 489</b>	<b>1 550 613</b>
<b>Total Equity</b>	<b>834 489</b>	<b>1 550 613</b>
<b>LIABILITIES</b>		
Provisions	1 503	-
<b>Total non-current liabilities</b>	<b>1 503</b>	<b>0</b>
Trade and other payables	930	169
Other liabilities	1 015	7 201
Accrued expenses and deferred income	2 823	6 038
<b>Total current liabilities</b>	<b>4 768</b>	<b>13 408</b>
<b>Total liabilities</b>	<b>6 271</b>	<b>13 408</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>840 760</b>	<b>1 564 021</b>

## Consolidated Statement of Changes in Equity in Summary

	Jan 1 - Jun 30	
<i>In thousands of SEK</i>	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	<b>1 550 613</b>	<b>1 803 993</b>
Total Comprehensive Income	-422 283	-421 615
Share repurchases	-293 842	-
<b>Closing balance</b>	<b>834 489</b>	<b>1 382 378</b>

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## Consolidated Statement of Cash Flows

<i>In thousands of SEK</i>	Jan 1 - Jun 30	
	2013	2012
<b>Cash flows from operating activities</b>		
Profit/loss before income tax	-444 976	-424 651
Adjustment for non-cash items		
Change in fair value of securities	395 336	408 251
Depreciation	97	172
Other	357	28
Income tax paid	-14	-10
<b>Net cash used in operating activities before changes in working capital</b>	<b>-49 200</b>	<b>-16 211</b>
<b>Cash flows from changes in working capital</b>		
Increase (-)/Decrease (+) in operating receivables	286 357	-20 819
Increase (+)/Decrease (-) in operating liabilities	-7 302	8 320
<b>Net cash used in operating activities</b>	<b>229 855</b>	<b>-28 709</b>
<b>Cash flows from investing activities</b>		
Acquisition of shares and participations	-5 210	-324 481
Proceeds from sale of shares and participations	40 897	485 445
<b>Net cash used in investing activities</b>	<b>35 687</b>	<b>160 965</b>
<b>Cash flows from financing activities</b>		
Stock dividend	-288 840	-
<b>Net cash from financing activities</b>	<b>-288 840</b>	<b>0</b>
Net increase in cash and cash equivalents	-23 298	132 255
Cash and cash equivalents at January 1	41 041	24 359
Effect of exchange rate fluctuations on cash held	361	125
<b>Cash and cash equivalents at the end of the period</b>	<b>18 103</b>	<b>156 739</b>

## Consolidated Key Figures \*

	Jan 1 - Jun 30	
	2013	2012
Number of shares outstanding, end of period	42 805 556	56 673 177
Average number of shares outstanding	47 019 105	56 673 177
Net asset value, end of period, TSEK	834 489	1 382 378
Net Income per average number of shares outstanding, SEK	-9,46	-7,49
Net asset value per share, end of period, SEK	19,49	24,39
<i>* before and after dilution</i>		

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## Company Income Statement

<i>In thousands of SEK</i>	Apr 1 - Jun 30		Jan 1 - Jun 30	
	2013	2012	2013	2012
Other income	3 600	3 120	7 200	6 240
Other external expenses	-977	-1 677	-2 077	-4 001
Employee benefit expenses	-2 520	-1 618	-5 286	-2 901
Depreciation of property, plant and equipment	0	-28	-6	-71
Other expenses	-2 028	3 370	-3 497	-1 822
<b>Result from operating activities</b>	<b>-1 925</b>	<b>3 167</b>	<b>-3 665</b>	<b>-2 554</b>
<b>Result from financial items</b>				
Result from participations in Group companies	-320 223	-838 368	-407 582	-379 797
Other interest income and similar income	14 421	28	56	52
Interest expense and similar charges	-32 487	-2	-32 624	-4
<b>Profit/loss before income tax</b>	<b>-340 213</b>	<b>-835 175</b>	<b>-443 815</b>	<b>-382 303</b>
Income tax expense	-	-	-	-
<b>Profit/loss for the period</b>	<b>-340 213</b>	<b>-835 175</b>	<b>-443 815</b>	<b>-382 303</b>

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## Company Balance Sheet

	Jun 30	Dec 31	Jun 30
<i>In thousands of SEK</i>	2013	2012	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	0	6	59
Financial assets			
Participations in group companies	718 701	1 151 279	1 337 504
Other deposits	76	76	76
<b>Total fixed assets</b>	<b>718 777</b>	<b>1 151 361</b>	<b>1 337 639</b>
<b>Current assets</b>			
Current receivables			
Receivables from Group companies	5 040	8 160	16 800
Income tax receivables	40	26	37
Other receivables	2 583	288 796	1 647
Prepaid expenses and accrued income	777	974	472
<i>Total current receivables</i>	<i>8 440</i>	<i>297 956</i>	<i>18 955</i>
Cash and bank	11 447	23 672	6 992
<b>Total current assets</b>	<b>19 886</b>	<b>321 628</b>	<b>25 947</b>
<b>TOTAL ASSETS</b>	<b>738 663</b>	<b>1 472 989</b>	<b>1 363 586</b>
<b>EQUITY</b>			
<i>Restricted equity</i>			
Share capital, 42,805,556 (56,673,177) shares at 6.82 (5.15)	291 953	291 706	291 706
<i>Unrestricted equity</i>			
Share premium reserve	4 268 749	4 557 836	4 557 524
Retained earnings	-3 381 732	-3 107 558	-3 107 558
Profit/loss for the period	-443 815	-274 174	-382 303
<b>TOTAL EQUITY</b>	<b>735 155</b>	<b>1 467 810</b>	<b>1 359 370</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	930	169	812
Other liabilities	315	271	866
Accrued expenses and prepaid income	2 264	4 739	2 539
<i>Total current liabilities</i>	<i>3 508</i>	<i>5 179</i>	<i>4 216</i>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>738 663</b>	<b>1 472 989</b>	<b>1 363 586</b>

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## Note 1 Consolidated operating expenses

<i>In thousands of SEK</i>	Apr 1 - Jun 30		Jan 1 - Jun 30	
	2013	2012	2013	2012
Employee remuneration expenses	-2 803	-2 056	-5 855	-3 835
Depreciation of property, plant and equipment	-45	-79	-97	-172
Other	1 564	-2 378	-3 866	-7 034
Management advisory agreement				
EOS AB's yearly share price development	481	13 942	-1 503	6 415
Monthly management fee	-4 537	0	-5 490	0
Preference share remuneration		-4 077	-	-11 748
<b>Total</b>	<b>-5 341</b>	<b>5 352</b>	<b>-16 811</b>	<b>-16 373</b>

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