



Year-end report

1 January – 31 December 2016

- IFRS NAV at the end of the period was SEK 666 million (247) and SEK 15.81 per share (5.82).
- Profit for the period amounted to SEK 384 million (-86) and SEK 9.09 per share (-2.02).



EOS Russia

EOS Russia was founded in the spring of 2007 in order to capitalise on investment opportunities arising as a result of the deregulation, restructuring and privatisation 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 investment activity is 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.

Recent Developments

Strong 2016 results

Over the past weeks, MRSKs have reported strong full-year 2016 results that have continued on the improvement trajectory started about two years ago. In 2016, profit margins and revenues were mostly up quite significantly.

The improvement in the financials is mainly driven by the improved cost management at the companies and an increasing demand for electricity connections.

Dividend payouts may be taking a step backwards

On February 20, 2017, Interfax reported that the Energy Ministry is in favour of dividends amounting to 25% of the net profits for MRSKs. Under this framework, larger payments will still be a possibility, depending on decisions by the Boards of Directors. This approach would be somewhat disappointing and a step backwards as all our MRSKs paid 50% payouts for 2015.

Nevertheless, even if all our MRSKs paid dividends at the lower end of the expected range, the dividend yields would still be significant.

Privatisations

We believe that the MRSK privatisations will be ultimately driven by the need to build a significant amount of new grid connections that MRSKs will not have the funding to pay for. This need may increase quite suddenly, as happened in 2006-07, when the Russian government was forced to introduce connection fees as a quick measure to deal with the need for new electricity connections.

However, the existence of European sanctions continues to keep the privatisation plans on the back-burner. We also believe that the Russian government will not be actively working on the privatisations before the Russian presidential elections in March 2018.

Valuations and Share Prices

MRSK share prices have declined in the past weeks after the news on the Energy Ministry's dividend plan appeared. However, MRSKs continue to trade at low valuations in comparison with their Emerging Market peers. For instance, they are currently traded at discounts of 64-79% on 2015-17e P/E and EV/EBITDA multiples to the peers.

Operational and financial results

Group

EOS recorded a net profit from investing activities of SEK 400 million (-73).

Operating expenses amounted to SEK -15.4 million (-12.9). A cost cutting program was put in place in 2015-2016 and while operating expenses in 2016 benefitted from that, the full effect will be observable in 2017 as in 2016 we also had to account for one-off severance payments and an increase in costs related to the increase in NAV. The main part of the variable cost increase was related to the Pareto agreement which was terminated at the end of 2016.

Net financial items for the period amounted to SEK -0.4 million (-0.0).

The profit for EOS during the period was SEK 384 million (-86). Profit per share was SEK 9.09 (-2.02). Total comprehensive income for the period was SEK 426 million (-65).

EOS' net asset value at December 31 2016 was SEK 666 million (247). The net asset value was impacted by exchange rate differences in the translation reserve of SEK -197 million (-239).

Parent Company

The parent company's income for the period amounted to SEK 9.6 million (9.6). Operating expenses amounted to SEK -11.6 million (-9.2) for the period. Net financial items amounted to SEK 412.1 million (-53.5) for the period of which SEK 410.4 (-53.1) million is a write-down of shares in subsidiaries. The profit for the period was SEK 410.1 million (-53.1).

The total number of shares outstanding at December 31, 2016 was 42,148,137 (42,360,290).

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 half of the year are shown in the table below:

Share of EOS portfolio	June 30, 2016	December 31, 2016	Change
Thermal generation	0,1%	-	- 0,1
Distribution	99,8%	99,9%	0,1
Transmission	0,1%	0,1%	-
Integrated	-	-	-
Total	100%	100%	

As per December 31, 2016, EOS' portfolio consisted of the assets listed in the table below:

Assets December 31, 2016	Market value	
	MSEK	MUSD
Thermal generation	0,0	0,0
Distribution	625,2	68,7
Transmission	0,6	0,1
Integrated	0,0	0,0
Total	625,8	68,8

* SEK/USD 9.0971

The fair value of the portfolio of shares is based on quoted Micex bid-prices.

EOS Russia's share price development

The closing price of EOS share at December 30, 2016 was SEK 10.25 corresponding to an increase during the year of 220.3% (the OMX Stockholm 30 index increased 4.9% during the same period).

EOS share price decreased by 90.5% between June 25, 2007 and March 9, 2017 in comparison to the OMX Stockholm 30 Index that gained 26.7% during the same period.

Other information

Organisation

The average number of employees in the Group as of December 31, 2016 was two (2), of which one (1) was employed by the parent company.

Related party transactions

Group

With regards 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 December 31 a liability of SEK 0.6 million (0.4) and has during the period recognised expense of SEK 4.2 million (2.8). With regards to the performance fee, the Group and the Group company EOS Russia (Cyprus) Ltd has as of December 31 accrued a provision of SEK 0.0 million (0.0) and has during the period recognised income of SEK 0.0 million (0.2). The income 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 assignments 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 the items already outlined under *“Related party transactions”*, the parent company has recognised a provision of SEK 0.5 million related to historic social security costs. Social security claims amounting to SEK 7.4 million (7.4) pertain to charges against EOS group for which provisions are not considered necessary. The parent company recognised assets pledged of SEK 13.8 million (0.0)

which are entirely made up of financing of the synthetic share repurchase program.

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 consequence, 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 Russian 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 2015 annual report.

Significant events during H2 and after the reporting period

EOS AB has previously given authorisation to the board 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 annual general meeting 2017.

Between April 15 and December 31, 2016, the Counterparty repurchased 1,840,653 EOS shares which amounts to 4.37% of the share capital and votes of the Parent company before the reduction. The average acquisition price, excluding fees, is SEK 7.50 per share. The swap agreement is accounted for as other assets and finance cost of SEK 13.8 million as of December 31, 2016.

In a press release dated 1 April 2015, EOS Russia disclosed that Mr Seppo Remes, the Chairman of the Board of Directors had been informed by the Russian authorities that he would no longer be permitted to enter the Russian Federation. In December 2016 the Company was pleased to report that as of now, Mr Remes is once again able to travel freely to and from Russia.

Accounting principles

For the Annual Report, 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 2015 – 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 2015. 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.

Synthetic repurchases of own shares (swap agreement)

Within the framework of the synthetic 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 subject to a limit 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 (as resolved by shareholders at the last AGM held in April 2016) 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 swap agreement is accounted for as a current asset or liability in the Company Balance Sheet and the Consolidated Statement of Financial Position and as a finance income or finance expense in the Company Income Statement and the Consolidated Statement of Comprehensive Income.

Alternative performance measures

The net asset value is defined as total assets less total debt. Average number of shares outstanding is defined as the weighted average of shares outstanding during the year. These alternative performance measures are essential for the understanding and evaluation of an investment company's business.

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 2015 annual report. The company estimates the value of investment in shares based on quoted prices on an active market (level 1). 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.

In thousands of SEK	2016-12-31		Total
	Level 1	Other	
Assets			
Other receivables	-	762	762
Shares and participations	625 772	-	625 772
Cash and cash equivalents	-	24 885	24 885
Balance at December 31	625 772	25 647	651 420

In thousands of SEK	2016-12-31		Total
	Level 1	Other	
Liabilities			
Trade and other payables	-	569	569
Accrued expenses	-	1 195	1 195
Other payables	-	851	851
Balance at December 31	0	2 616	2 616

Annual general meeting

The annual general meeting (AGM) will be held in Stockholm on 23 May 2017. Summons to the AGM will be sent out in April 2017.

Annual report

EOS's annual report will be made available on the company web site at the latest two weeks before the AGM.

Dividend

EOS's main objective is to generate shareholder value by investing in Russian power company shares. The Board of Directors of EOS AB proposes that no dividends be distributed

Stockholm March 17, 2017
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

- 2017-05-23 Annual General Meeting
- 2017-08-25 Half year report 1 January – 30 June

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

www.eos-russia.com

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Consolidated Income Statement and Statement of Comprehensive Income, in Summary

<i>In thousands of SEK</i>	Jul 1 - Dec 31		Jan 1 - Dec 31	
	2016	2015	2016	2015
Net change in fair value of securities	247 215	-89 019	373 849	-80 177
Dividends	730	7 278	25 801	7 278
Net profit/loss - Investing activities	247 945	-81 740	399 650	-72 898
Operating expenses*	-7 958	-6 690	-15 404	-12 883
Result from operating activities	239 987	-88 430	384 246	-85 781
Finance income	13	1	14	6
Finance expenses	-448	-13	-458	-39
Profit/loss before income tax	239 552	-88 442	383 802	-85 814
Income tax expense	-	-	-	-
Profit/loss for the period	239 552	-88 442	383 802	-85 814
Other Comprehensive Income for the period				
<i>Items that have been or may be recycled to profit/loss for the period</i>				
Translation differences	38 418	2 969	41 952	20 759
Total other Comprehensive Income for the period	38 418	2 969	41 952	20 759
Total Comprehensive Income for the period	277 970	-85 473	425 754	-65 055
Attributable to equity holders of the Company				
Profit/loss for the period	239 552	-88 442	383 802	-85 814
Total Comprehensive Income for the period	277 970	-85 473	425 754	-65 055
Earnings per share				
basic (SEK)	5,68	-2,09	9,09	-2,02
diluted (SEK)	5,68	-2,09	9,09	-2,02

* see note 1 for detailed information

Consolidated Statement of Financial Position

<i>In thousands of SEK</i>	Dec 31	Dec 31
	2016	2015
Assets		
Property, plant and equipment	3 800	3 626
Total non-current assets	3 800	3 626
Income tax receivables	200	254
Prepaid expenses and accrued income	221	598
Other receivables	14 654	4 868
Shares and participations	625 772	223 703
Cash and cash equivalents	24 885	20 501
Total current assets	665 732	249 924
TOTAL ASSETS	669 532	253 551
Equity and liabilities		
EQUITY		
Share capital	42 363	42 360
Other contributed equity	4 481 090	4 482 131
Reserves	-196 941	-238 893
Retained earnings, including profit/loss for the period	-3 660 225	-4 039 026
Equity attributable to equity holders of EOS AB	666 288	246 572
Total Equity	666 288	246 572
LIABILITIES		
Trade and other payables	569	214
Other liabilities	851	2 273
Accrued expenses and deferred income	1 824	4 492
Total current liabilities	3 244	6 979
Total liabilities	3 244	6 979
TOTAL EQUITY AND LIABILITIES	669 532	253 551

Consolidated Statement of Changes in Equity in Summary

<i>In thousands of SEK</i>	Jan 1 - Dec 31	
	2016	2015
Opening balance	246 572	312 129
Total Comprehensive Income	425 754	-65 055
Share redemption	-6 038	-766
Reversal of loss in share repurchases	-	265
Closing balance	666 288	246 572

Consolidated Statement of Cash Flows

	Jan 1 - Dec 31	
<i>In thousands of SEK</i>	2016	2015
Cash flows from operating activities		
Profit/loss before income tax	383 802	-85 814
Adjustment for non-cash items		
Change in fair value of securities	-370 666	81 234
Depreciation	141	145
Other	-1 588	1 027
Income tax paid	0	0
Net cash used in operating activities before changes in working capital	11 688	-3 408
Cash flows from changes in working capital		
Increase (-)/Decrease (+) in operating receivables	-9 731	-2 998
Increase (+)/Decrease (-) in operating liabilities	-4 107	421
Net cash used in operating activities	-2 150	-5 985
Cash flows from investing activities		
Proceeds from sale of shares and participations	7 572	1 808
Net cash used in investing activities	7 572	1 808
Cash flows from financing activities		
Share redemption	-1 038	-766
Net cash from financing activities	-1 038	-766
Net increase in cash and cash equivalents	4 384	-4 943
Cash and cash equivalents at January 1	20 501	25 444
Cash and cash equivalents at the end of the period	24 885	20 501

Consolidated Key Figures *

	Jan 1 - Dec 31	
	2016	2015
Number of shares outstanding, end of period	42 148 137	42 360 290
Average number of shares outstanding	42 225 231	42 403 705
Net asset value, end of period, TSEK	666 288	246 572
Net Income per average number of shares outstanding, SEK	9,09	-2,02
Net asset value per share, end of period, SEK	15,81	5,82
<i>* before and after dilution</i>		

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Company Income Statement

<i>In thousands of SEK</i>	Jul 1 - Dec 31		Jan 1 - Dec 31	
	2016	2015	2016	2015
Other income	4 800	4 800	9 600	9 600
Other external expenses	-1 001	-1 076	-1 966	-2 537
Employee benefit expenses	-2 936	-2 881	-6 994	-5 309
Other expenses	-1 809	-579	-2 596	-1 339
Result from operating activities	-945	264	-1 955	415
Result from financial items				
Result from participations in Group companies	272 518	-78 352	412 476	-53 490
Other interest income and similar income	13	1	14	6
Interest expense and similar charges	-437	-3	-438	-4
Profit/loss before income tax	271 149	-78 089	410 097	-53 073
Income tax expense	-	-	-	-
Profit/loss for the period	271 149	-78 089	410 097	-53 073

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Company Balance Sheet

	Dec 31	Dec 31
<i>In thousands of SEK</i>	2016	2015
ASSETS		
Non-current assets		
Financial assets		
Participations in group companies	623 201	212 828
Total fixed assets	623 201	212 828
Current assets		
Current receivables		
Receivables from Group companies	-2 400	4 800
Income tax receivables	200	254
Other receivables	13 957	3 838
Prepaid expenses and accrued income	74	147
<i>Total current receivables</i>	<i>11 831</i>	<i>9 039</i>
Cash and bank	842	8 566
Total current assets	12 673	17 605
TOTAL ASSETS	635 874	230 433
EQUITY		
<i>Restricted equity</i>		
Share capital, 42,148,137 (42,360,290) shares at 1.01 (1.00)	42 363	42 360
<i>Unrestricted equity</i>		
Share premium reserve	4 480 578	4 481 619
Retained earnings	-4 299 283	-4 246 210
Profit/loss for the period	410 097	-53 073
TOTAL EQUITY	633 756	224 697
LIABILITIES		
Current liabilities		
Accounts payable	102	214
Current tax liabilities	468	-
Other liabilities	300	1 851
Accrued expenses and prepaid income	1 249	3 670
<i>Total current liabilities</i>	<i>2 119</i>	<i>5 736</i>
TOTAL EQUITY AND LIABILITIES	635 874	230 433

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Note 1 Consolidated operating expenses

<i>In thousands of SEK</i>	Jul 1 - Dec 31		Jan 1 - Dec 31	
	2016	2015	2016	2015
Employee remuneration expenses	-3 269	-3 278	-7 722	-6 061
Depreciation of property, plant and equipment	-71	-68	-141	-145
Other	-1 988	-2 188	-3 337	-4 000
Management advisory agreement				
EOS AB's yearly share price development	0	150	0	150
Monthly management fee	-2 630	-1 306	-4 204	-2 827
Total	-7 958	-6 690	-15 404	-12 883

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