



## Year-end report

### 1 January – 31 December 2017

- NAV at the end of the period was SEK 963 million (666) and SEK 23.89 per share (15.81).
- Profit for the period amounted to SEK 386 million (384) and SEK 9.39 per share (9.09).



## **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 2017 results**

The MRSKs that account for virtually the whole of EOS's portfolio summarized on page 4 below have, over the past weeks, reported strong full-year 2017 results. In 2017, 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.

### **Strong results point to attractive dividends**

For 2016 MRSKs paid as dividends 50% of the IFRS net profits adjusted for connection fee profits/losses. In practice, this meant dividend payout ratios of 37-54% for MRSKs Volga, Urals and Center-Volga, while the payout from MRSK North-West was a more modest 19%.

If the 2016 individual IFRS payout ratios were repeated for each of the companies on 2017 earnings, we estimate that the portfolio weighted average dividend yield on our key holdings would be around 9%.

It is important to stress that these numbers make several assumptions.

## **Valuations and Share Prices**

MRSK share prices increased in 2017 but have been flat recently and MRSKs continue to trade at low valuations in comparison with their Emerging Market peers. For instance, they are traded (2 March, 2018) at discounts of 73-75% on 2016-18e P/E and EV/EBITDA multiples to the peers.

## Operational and financial results

### Group

EOS recorded a net profit from investing activities of SEK 404 million (400).

Operating expenses amounted to SEK -17.9 million (-15.4). The cost cutting program, put in place in 2015-2016, had a positive effect on operating costs in 2017. The positive benefits of the lower costs were offset by one-time items amounting to SEK 8.0 million related to social security costs.

Net financial items for the period amounted to SEK -0.1 million (-0.4).

The profit for EOS during the period was SEK 386 million (384). Profit per share was SEK 9.39 (9.09). Total comprehensive income for the period was SEK 310 million (426).

EOS' net asset value at December 31 2017 was SEK 963 million (666). The increase in net asset value can be derived from the positive total comprehensive income for the year, reduced by share redemptions. The accumulated effect from exchange rate differences in the translation reserve is SEK -273 million (-197).

### Parent Company

The parent company's income for the period amounted to SEK 9.6 million (9.6). Operating expenses amounted to SEK -5.2 million (-11.6) for the period. Net financial items amounted to SEK 338.6 million (412.1) for the period of which SEK 338.6 (410.4) million is a write-down of shares in subsidiaries. The profit for the period was SEK 342.9 million (410.1).

The total number of shares outstanding at December 31, 2017 was 40,307,484 (42,148,137).

## 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, 2017 | December 31, 2017 |
|------------------------|---------------|-------------------|
| Thermal generation     | -             | -                 |
| Distribution           | 99,9%         | 99,9%             |
| Transmission           | 0,1%          | 0,1%              |
| Integrated             | -             | -                 |
| <b>Total</b>           | <b>100%</b>   | <b>100%</b>       |

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

| Assets December 31, 2017 | Market value |              |
|--------------------------|--------------|--------------|
|                          | MSEK         | MUSD         |
| Thermal generation       | 0,0          | 0,0          |
| Distribution             | 934,3        | 113,5        |
| Transmission             | 0,5          | 0,1          |
| Integrated               | 0,0          | 0,0          |
| <b>Total</b>             | <b>934,7</b> | <b>113,5</b> |

\* SEK/USD 8.2322

The fair value of the portfolio of shares is based on bid-prices quoted on the Moscow Exchange (MOEX).

## EOS Russia's share price development

The closing price of EOS share at December 29, 2017 was SEK 13.60 corresponding to an increase during the year of 32.7% (the OMX Stockholm 30 index increased 3.9% during the same period).

EOS share price decreased by 85.6% between June 25, 2007 and March 16, 2018 in comparison to the OMX Stockholm 30 Index that gained 25.9% during the same period.

## Other information

### Organisation

The average number of employees in the Group as of December 31, 2017 was two (2), of which one (1) was employed by the parent company.

### Related party transactions

#### Group

With regards to the consultancy agreement with the two founders remaining with EOS Russia, covering the years 2017-2019, the Group and the Group company EOS Russia (Cyprus) Ltd has as of December 31 booked a liability of SEK 1.3 million (0.6) and has during the period recognised expense of SEK 1.3 million (4.2).

#### 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*", no provisions, contingent assets/liabilities or pledged assets have been accounted for.

## 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 2016 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 2018. The previous counterparty has declined to continue to buy back shares. EOS is in discussions with new counterparties, in order to re-commence buybacks in 2018.

In November, the EGM decided on launching an incentive program, in the form of Warrants, to the benefit of key executives. The Warrant program entitles the holders to subscribe to up to a total of 1,209,216 shares in EOS AB during a six-year period starting in 2017.

## **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.

## **New IFRS regulations to be applied in 2018**

The new standards described below will be applied from January 1, 2018. IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 presents a model for classification and measurement of financial instruments, an expected loss model for the impairment of financial assets and significant changes to hedge accounting. This change will have no effect on the valuation of EOS' financial instruments.

For more detailed information about the principles used for the Group and the Company, please refer to the Annual Report 2016. 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.

## **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 2016 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           | 2017-12-31     |               |                |
|-------------------------------|----------------|---------------|----------------|
|                               | Level 1        | Other         | Total          |
| <b>Assets</b>                 |                |               |                |
| Other receivables             | -              | 957           | 957            |
| Shares and participations     | 934 726        | -             | 934 726        |
| Cash and cash equivalents     | -              | 28 231        | 28 231         |
| <b>Balance at December 31</b> | <b>934 726</b> | <b>29 188</b> | <b>963 914</b> |

| In thousands of SEK           | 2017-12-31 |              |              |
|-------------------------------|------------|--------------|--------------|
|                               | Level 1    | Other        | Total        |
| <b>Liabilities</b>            |            |              |              |
| Trade and other payables      | -          | 1 325        | 1 325        |
| Accrued expenses              | -          | 1 858        | 1 858        |
| Other payables                | -          | 1 426        | 1 426        |
| <b>Balance at December 31</b> | <b>0</b>   | <b>4 609</b> | <b>4 609</b> |

## Annual general meeting

The annual general meeting (AGM) will be held in Stockholm on 15 May 2018. Summons to the AGM will be sent out in April 2018.

## 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 23, 2018  
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

- 2018-05-15 Annual General Meeting
- 2018-08-24 Half year report 1 January – 30 June

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

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

## Contact information:

Ulf-Henrik Svensson, CEO

[ir@eos-russia.com](mailto:ir@eos-russia.com)

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

| <i>In thousands of SEK</i>   | Jul 1 - Dec 31 |                | Jan 1 - Dec 31 |                |
|--|----------------|----------------|----------------|----------------|
|  | 2017           | 2016           | 2017           | 2016           |
| Net change in fair value of securities                                       | 331 778        | 247 215        | 367 460        | 373 849        |
| Dividends  | -1 331         | 730            | 36 399         | 25 801         |
| <b>Net profit/loss - Investing activities</b>                                | <b>330 446</b> | <b>247 945</b> | <b>403 858</b> | <b>399 650</b> |
| Operating expenses*  | -6 453         | -7 958         | -17 947        | -15 404        |
| <b>Result from operating activities</b>                                      | <b>323 994</b> | <b>239 987</b> | <b>385 911</b> | <b>384 246</b> |
| Finance income   | -3             | 13             | 12             | 14             |
| Finance expenses   | -33            | -448           | -87            | -458           |
| <b>Profit/loss before income tax</b>   | <b>323 958</b> | <b>239 552</b> | <b>385 836</b> | <b>383 802</b> |
| Income tax expense   | -              | -              | -              | -              |
| <b>Profit/loss for the period</b>  | <b>323 958</b> | <b>239 552</b> | <b>385 836</b> | <b>383 802</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  | -27 963        | 38 418         | -75 785        | 41 952         |
| <b>Total other Comprehensive Income for the period</b>                       | <b>-27 963</b> | <b>38 418</b>  | <b>-75 785</b> | <b>41 952</b>  |
| <b>Total Comprehensive Income for the period</b>                             | <b>295 994</b> | <b>277 970</b> | <b>310 051</b> | <b>425 754</b> |
| <b>Attributable to equity holders of the Company</b>                         |                |                |                |                |
| Profit/loss for the period   | 323 958        | 239 552        | 385 836        | 383 802        |
| Total Comprehensive Income for the period                                    | 295 994        | 277 970        | 310 051        | 425 754        |
| <b>Earnings per share</b>  |                |                |                |                |
| basic (SEK)  | 7,69           | 5,68           | 9,39           | 9,09           |
| diluted (SEK)  | 7,69           | 5,68           | 9,39           | 9,09           |

\* see note 1 for detailed information



## Consolidated Statement of Financial Position

| <i>In thousands of SEK</i>                              | Dec 31         | Dec 31         |
|---|----------------|----------------|
|   | 2017           | 2016           |
| <b>Assets</b>   |                |                |
| Property, plant and equipment                           | 3 314          | 3 800          |
| <b>Total non-current assets</b>                         | <b>3 314</b>   | <b>3 800</b>   |
| Income tax receivables                                  | 282            | 200            |
| Prepaid expenses and accrued income                     | 220            | 221            |
| Other receivables                                       | 1 235          | 14 654         |
| Shares and participations                               | 934 726        | 625 772        |
| Cash and cash equivalents                               | 28 231         | 24 885         |
| <b>Total current assets</b>                             | <b>964 694</b> | <b>665 732</b> |
| <b>TOTAL ASSETS</b>                                     | <b>968 008</b> | <b>669 532</b> |
| <b>Equity and liabilities</b>                           |                |                |
| <b>EQUITY</b>   |                |                |
| Share capital   | 42 363         | 42 363         |
| Other contributed equity                                | 4 467 261      | 4 481 090      |
| Reserves  | -272 726       | -196 941       |
| Retained earnings, including profit/loss for the period | -3 274 031     | -3 660 225     |
| <b>Equity attributable to equity holders of EOS AB</b>  | <b>962 867</b> | <b>666 288</b> |
| <b>Total Equity</b>                                     | <b>962 867</b> | <b>666 288</b> |
| <b>LIABILITIES</b>                                      |                |                |
| Trade and other payables                                | 1 325          | 569            |
| Other liabilities                                       | 1 426          | 851            |
| Accrued expenses and deferred income                    | 2 390          | 1 824          |
| <b>Total current liabilities</b>                        | <b>5 141</b>   | <b>3 244</b>   |
| <b>Total liabilities</b>                                | <b>5 141</b>   | <b>3 244</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                     | <b>968 008</b> | <b>669 532</b> |

## Consolidated Statement of Changes in Equity in Summary

| <i>In thousands of SEK</i>   | Jan 1 - Dec 31 |                |
|------------------------------|----------------|----------------|
|                              | 2017           | 2016           |
| <b>Opening balance</b>       | <b>666 288</b> | <b>246 572</b> |
| Total Comprehensive Income   | 310 051        | 425 754        |
| Share redemption             | -13 830        | -6 038         |
| Liquidation of group company | 358            | -              |
| <b>Closing balance</b>       | <b>962 867</b> | <b>666 288</b> |

## Consolidated Statement of Cash Flows

| <i>In thousands of SEK</i>   | Jan 1 - Dec 31 |               |
|--|----------------|---------------|
|  | 2017           | 2016          |
| <b>Cash flows from operating activities</b>                                    |                |               |
| Profit/loss before income tax  | 385 836        | 383 802       |
| Adjustment for non-cash items  |                |               |
| Change in fair value of securities   | -367 509       | -370 666      |
| Depreciation   | 130            | 141           |
| Other  | -2 153         | -1 588        |
| Income tax paid  | 0              | 0             |
| <b>Net cash used in operating activities before changes in working capital</b> | <b>16 304</b>  | <b>11 688</b> |
| <b>Cash flows from changes in working capital</b>                              |                |               |
| Increase (-)/Decrease (+) in operating receivables                             | 15 625         | -9 731        |
| Increase (+)/Decrease (-) in operating liabilities                             | -202           | -4 107        |
| <b>Net cash used in operating activities</b>                                   | <b>31 726</b>  | <b>-2 150</b> |
| <b>Cash flows from investing activities</b>                                    |                |               |
| Acquisition of shares and participations                                       | -14 551        | -             |
| Proceeds from sale of shares and participations                                | -              | 7 572         |
| <b>Net cash used in investing activities</b>                                   | <b>-14 551</b> | <b>7 572</b>  |
| <b>Cash flows from financing activities</b>                                    |                |               |
| Share redemption   | -13 830        | -1 038        |
| <b>Net cash from financing activities</b>                                      | <b>-13 830</b> | <b>-1 038</b> |
| Net increase in cash and cash equivalents                                      | 3 346          | 4 384         |
| Cash and cash equivalents at January 1   | 24 885         | 20 501        |
| <b>Cash and cash equivalents at the end of the period</b>                      | <b>28 231</b>  | <b>24 885</b> |

## Consolidated Key Figures \*

|  | Jan 1 - Dec 31 |            |
|--|----------------|------------|
|  | 2017           | 2016       |
| Number of shares outstanding, end of period              | 40 307 484     | 42 148 137 |
| Average number of shares outstanding                     | 41 104 260     | 42 225 231 |
| Net asset value, end of period, TSEK                     | 962 867        | 666 288    |
| Net Income per average number of shares outstanding, SEK | 9,39           | 9,09       |
| Net asset value per share, end of period, SEK            | 23,89          | 15,81      |
| <i>* before and after dilution</i>                       |                |            |

EOS Russia AB (publ)

Skeppargatan 27B, 114 52 Stockholm, Sweden

<http://www.eos-russia.com> | [ir@eos-russia.com](mailto:ir@eos-russia.com) | Phone +46 (0) 8 407 31 50

## Company Income Statement

| <i>In thousands of SEK</i>                    | Jul 1 - Dec 31 |                | Jan 1 - Dec 31 |                |
|---|----------------|----------------|----------------|----------------|
|   | 2017           | 2016           | 2017           | 2016           |
| Other income                                  | 4 830          | 4 800          | 9 630          | 9 600          |
| Other external expenses                       | -1 726         | -1 000         | -2 344         | -1 966         |
| Employee benefit expenses                     | -1 505         | -2 936         | -2 898         | -6 994         |
| Other expenses                                | 0              | -1 809         | 0              | -2 596         |
| <b>Result from operating activities</b>       | <b>1 599</b>   | <b>-945</b>    | <b>4 388</b>   | <b>-1 955</b>  |
| <b>Result from financial items</b>            |                |                |                |                |
| Result from participations in Group companies | 319 018        | 272 518        | 338 605        | 412 476        |
| Other interest income and similar income      | -3             | 13             | 12             | 14             |
| Interest expense and similar charges          | -19            | -437           | -64            | -438           |
| <b>Profit/loss before income tax</b>          | <b>320 595</b> | <b>271 149</b> | <b>342 941</b> | <b>410 097</b> |
| Income tax expense                            | -              | -              | -              | -              |
| <b>Profit/loss for the period</b>             | <b>320 595</b> | <b>271 149</b> | <b>342 941</b> | <b>410 097</b> |

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## Company Balance Sheet

| <i>In thousands of SEK</i>                                   | Dec 31         | Dec 31         |
|--|----------------|----------------|
|  | <b>2017</b>    | <b>2016</b>    |
| <b>ASSETS</b>  |                |                |
| <b>Non-current assets</b>                                    |                |                |
| Financial assets   |                |                |
| Participations in group companies                            | 956 511        | 623 201        |
| <b>Total fixed assets</b>                                    | <b>956 511</b> | <b>623 201</b> |
| <b>Current assets</b>  |                |                |
| Current receivables  |                |                |
| Receivables from Group companies                             | 0              | -2 400         |
| Income tax receivables                                       | 282            | 200            |
| Other receivables  | 433            | 13 957         |
| Prepaid expenses and accrued income                          | 91             | 74             |
| <i>Total current receivables</i>                             | <i>805</i>     | <i>11 831</i>  |
| Cash and bank  | 8 180          | 842            |
| <b>Total current assets</b>                                  | <b>8 985</b>   | <b>12 673</b>  |
| <b>TOTAL ASSETS</b>  | <b>965 496</b> | <b>635 874</b> |
| <b>EQUITY</b>  |                |                |
| <i>Restricted equity</i>                                     |                |                |
| Share capital, 40,307,484 (42,148,137) shares at 1.05 (1.01) | 42 363         | 42 363         |
| <i>Unrestricted equity</i>                                   |                |                |
| Share premium reserve  | 4 466 749      | 4 480 578      |
| Retained earnings  | -3 889 186     | -4 299 283     |
| Profit/loss for the period                                   | 342 941        | 410 097        |
| <b>TOTAL EQUITY</b>  | <b>962 867</b> | <b>633 756</b> |
| <b>LIABILITIES</b>   |                |                |
| <b>Current liabilities</b>                                   |                |                |
| Accounts payable   | 879            | 102            |
| Current tax liabilities                                      | -36            | 468            |
| Other liabilities  | 155            | 300            |
| Accrued expenses and prepaid income                          | 1 631          | 1 249          |
| <i>Total current liabilities</i>                             | <i>2 629</i>   | <i>2 119</i>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                          | <b>965 496</b> | <b>635 874</b> |

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<http://www.eos-russia.com> | [ir@eos-russia.com](mailto:ir@eos-russia.com) | Phone +46 (0) 8 407 31 50

## Note 1 Consolidated operating expenses

| <i>In thousands of SEK</i>                    | Jul 1 - Dec 31 |               | Jan 1 - Dec 31 |                |
|---|----------------|---------------|----------------|----------------|
|   | 2017           | 2016          | 2017           | 2016           |
| Employee remuneration expenses                | -2 079         | -3 269        | -3 709         | -7 722         |
| Depreciation of property, plant and equipment | -63            | -71           | -130           | -141           |
| Other *                                       | -3 556         | -1 988        | -12 859        | -3 337         |
| Consultancy agreements                        | -755           | -2 630        | -1 250         | -4 204         |
| <b>Total</b>                                  | <b>-6 453</b>  | <b>-7 958</b> | <b>-17 947</b> | <b>-15 404</b> |

\* The material year-on-year increase in expenses recorded in this line results almost entirely from mandatory social security payments relating to the periods 2008-12. The obligation to make these payments amounting to SEK 8.0 million, of which SEK 1.0 million was accounted for in 2016, arose from unpredictable tax and court decisions in Sweden, details of which were provided in the company's press release of 3 July 2017. [Press release](#)