



Year-end report

1 January – 31 December 2013

- IFRS NAV at the end of the period was SEK 413 million (1,551) and SEK 9.64 per share (27.36).
- Loss for the period amounted to SEK -816 million (-167) and SEK -18.17 per share (-2.94).



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 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.

Investment case

The Board of EOS Russia will present an updated investment case to be published February 20, 2014 on the company web site. The Russian government has started work on a privatization program for MRSKs with a pilot MRSK privatization planned for 2014.

While continuing tariff controls have had a negative impact on the share prices of MRSKs, this market reaction appears exaggerated because the tariff controls have prompted the MRSKs to initiate corresponding cost-cutting programs and the RAB values seem to be staying largely intact (an updated MRSK newsletter will be published February 20, 2014, on the company web site).

EOS Russia has a considerable track record of selling stakes directly to strategic investors, in several cases at a significant premium to the market. In general, the Board considers that there is an opportunity to capture larger premiums and higher valuations, once the MRSK privatization program becomes clearer to strategic investors.

Nevertheless, the liquidity needs and preferences among the company's shareholders vary, and the company is making best efforts to consider and to accommodate these aspirations. The company is currently running a synthetic share buyback program and is well positioned to take advantage of the best opportunities for further divestments which are likely to materialize as further progress is made on the privatization program.

The company has no history of selling its assets below market values, and has no intention of changing this policy.

The intention of EOS Russia is to return the asset sale proceeds to its shareholders mainly via synthetic share buybacks after the divestments have taken place. Ultimately, the company will be wound down, and the Board has started to study the wind-down process.

Operational and financial results

Group

EOS recorded a net loss from investing activities of SEK -786 million (-161).

Operating expenses amounted to SEK -29.0 million (-37.7). Net financial items for the period amounted to SEK -0.7 million (-31.8). Net financial items include interest income of SEK 0.1 million (0.3) and interest expenses totaling SEK -0.1 million (-1.0). SEK -0.6 million (-32.5) are costs related to the synthetic share repurchase program.

The loss for EOS during the period was SEK -816 million (-167). Loss per share was SEK -18.17 (-2.94). Total comprehensive income for the period was SEK -817 million (-254).

EOS' net asset value at December 31 2013 was SEK 413 million (1,551). The net asset value was impacted by exchange rate differences in the translation reserve of SEK -317 million (-316).

An extensive cost reduction program initiated in Q4 will lead to a reduction in administration costs when fully implemented. Provisions for this have been accounted for as at yearend of SEK 1.6 million.

Parent Company

The parent company's income for the period amounted to SEK 14.4 million (14.4). Operating expenses amounted to SEK -19.9 (-21.4) million for the period. Net financial items amounted to SEK -776.5 million (-267.2) for the period of which SEK -780.2 (-303.3) million is a write-down of shares in subsidiaries. The loss for the period was SEK -782.0 million (-274.2).

The total number of shares outstanding at December 31, 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 third quarter are shown in the table below:

Share of EOS portfolio	September 30, 2013	December 31, 2013	Change
Thermal generation	0,1%	0,1%	-
Distribution	98,6%	99,2%	0,6
Transmission	0,8%	0,1%	- 0,7
Integrated	0,5%	0,6%	0,1
Total	100%	100%	

As per December 31, 2013, EOS' portfolio consisted of the assets listed in the table below:

Assets December 31, 2013	Market value	
	MSEK	MUSD
Thermal generation	0,4	0,1
Distribution	369,9	56,9
Transmission	0,4	0,1
Integrated	2,3	0,4
Total	372,9	57,3

* SEK/USD 6.5084

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

EOS Russia's share price development

The closing price of EOS share at December 30, 2013 was SEK 9.50 corresponding to a decrease during the year of 58.7% (the OMX Stockholm 30 index gained 18.8% during the same period).

EOS share price decreased by 92.2% between June 25, 2007 and February 17, 2014 in comparison to the OMX Stockholm 30 Index that gained 7.4% during the same period.

Share price development June 25, 2007 – February 17, 2014 EOS Russia AB (EOS SS) vs. OMX S30 index



Source: Bloomberg

Other information

Organization

The average number of employees in the group as of December 31, 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 December 31 a liability of SEK 0.3 million (0) and has during the period recognised expense of SEK 8.2 million (0). With regard to the performance fee the group and the group company EOS Russia (Cyprus) Ltd has as of December 31 accrued a provision of SEK 0.5 million (0) and has during the period recognised expense of SEK 0.5 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 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 have been accounted for. Total pledged assets amounts to SEK 3.5 million (255.4) and is entirely made up of the funding 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 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 Q4

EOS AB (publ) has previously given authorization 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 2014.

As of December 31, 2013, the Counterparty has repurchased 338,194 EOS shares which amounts to 0.8% of the share capital and votes of the Parent company before the reduction. The average acquisition price, excluding fees, is SEK 10.28 per share. The swap agreement is accounted for as other receivables and finance income of SEK 0.3 million as of December 31, 2013.

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). 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 were to 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. Since there was no increase in market capitalization in 2013, the performance fee for this year did not materialize.

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 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 the 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 company has during Q4 changed the manner in which fair values are established for its investments in shares from using mid-prices to using current bid-prices quoted on Micex. The change in the approach for establishing fair value has consequently resulted in a transfer out of the previous level 2 into level 1 in the table below. The effect of the changed approach has resulted in a decrease in the recognised amounts in the balance sheet of SEK 1.9 million (representing 0.5% of the fair value of the portfolio based on mid-prices) and an equivalent amount recognised in income statement in the line item Net change in fair value of securities.

It should be noted that the change in the fair value hierarchy from level 2 (where prices are not quoted on an active market, but fair values can be established based on observable prices on the market using a valuation technique) to level 1 (where prices are quoted on an active market for the instrument) does not represent a change in the liquidity on the market for the instruments, but rather a change in interpretation and application of relevant International Financial Reporting Standards

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 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.

<i>In thousands of SEK</i>	2013-12-31		
	Level 1	Other	Total
Assets			
Other receivables	-	5 462	5 462
Shares and participations	378 008	-	378 008
Cash and cash equivalents	-	27 943	27 943
Balance at December 31	378 008	33 406	411 413

<i>In thousands of SEK</i>	2013-12-31		
	Level 1	Other	Total
Liabilities			
Trade and other payables	-	153	153
Accrued expenses	-	3 433	3 433
Other payables	-	757	757
Balance at December 31	0	4 344	4 344

Annual general meeting

The annual general meeting (AGM) will be held in Stockholm on 8 April 2014. Summons to the AGM will be sent out in March 2014.

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. EOS plans to reinvest capital gains. The Board of Directors of EOS AB proposes that no dividends be distributed.

Stockholm February 18, 2014
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

- 2014-04-08 Annual General Meeting
- 2014-08-22 Half year report 1 January – 30 June 2014

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

www.eos-russia.com

Contact information:

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Consolidated Income Statement and Statement of Comprehensive Income, in Summary

<i>In thousands of SEK</i>	Oct 1 - Dec 31		Jan 1 - Dec 31	
	2013	2012	2013	2012
Net change in fair value of securities	-115 090	50 765	-800 066	-178 740
Dividends	-2 484	-100	14 045	17 770
Net profit/loss - Investing activities	-117 574	50 665	-786 021	-160 969
Operating expenses*	-6 764	-9 390	-28 994	-37 664
Result from operating activities	-124 338	41 275	-815 015	-198 634
Finance income	281	33 557	101	32 776
Finance expenses	-601	-392	-783	-973
Profit/loss before income tax	-124 658	74 440	-815 697	-166 831
Income tax expense	2 479	0	0	0
Profit/loss for the period	-122 179	74 440	-815 697	-166 831
Other Comprehensive Income for the period				
<i>Items that have been or may be recycled to profit/loss for the period</i>				
Translation differences	6 123	2 837	-913	-86 861
Total other Comprehensive Income for the period	6 123	2 837	-913	-86 861
Total Comprehensive Income for the period	-116 056	77 277	-816 610	-253 692
Attributable to equity holders of the Company				
Profit/loss for the period	-122 179	74 440	-815 697	-166 831
Total Comprehensive Income for the period	-116 056	77 277	-816 610	-253 692
Earnings per share				
basic (SEK)	-2,85	1,31	-18,17	-2,94
diluted (SEK)	-2,85	1,31	-18,17	-2,94

* see note 1 for detailed information

Consolidated Statement of Financial Position

<i>In thousands of SEK</i>	Dec 31	Dec 31
	2013	2012
Assets		
Property, plant and equipment	5 359	5 237
Total non-current assets	5 359	5 237
Income tax receivables	226	26
Prepaid expenses and accrued income	557	1 084
Other receivables	6 091	290 605
Shares and participations	378 008	1 226 029
Cash and cash equivalents	27 943	41 041
Total current assets	412 825	1 558 784
TOTAL ASSETS	418 184	1 564 021
Equity and liabilities		
EQUITY		
Share capital	291 953	291 706
Other contributed equity	4 236 267	4 557 834
Reserves	-317 349	-316 436
Retained earnings, including profit/loss for the period	-3 798 189	-2 982 492
Equity attributable to equity holders of EOS AB	412 683	1 550 613
Total Equity	412 683	1 550 613
LIABILITIES		
Provisions	497	-
Total non-current liabilities	497	0
Trade and other payables	153	169
Other liabilities	761	7 201
Accrued expenses and deferred income	4 090	6 038
Total current liabilities	5 004	13 408
Total liabilities	5 501	13 408
TOTAL EQUITY AND LIABILITIES	418 184	1 564 021

Consolidated Statement of Changes in Equity in Summary

<i>In thousands of SEK</i>	Jan 1 - Dec 31	
	2013	2012
Opening balance	1 550 613	1 803 993
Total Comprehensive Income	-816 610	-253 692
Share redemption	-321 319	-
Reversal of cost for raising capital	-	312
Closing balance	412 683	1 550 613

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Consolidated Statement of Cash Flows

	Jan 1 - Dec 31	
<i>In thousands of SEK</i>	2013	2012
Cash flows from operating activities		
Profit/loss before income tax	-815 697	-166 831
Adjustment for non-cash items		
Change in fair value of securities	799 905	171 879
Depreciation	173	300
Other	343	28
Income tax paid	0	1
Net cash used in operating activities before changes in working capital	-15 276	5 378
Cash flows from changes in working capital		
Increase (-)/Decrease (+) in operating receivables	252 015	-296 932
Increase (+)/Decrease (-) in operating liabilities	-7 851	6 355
Net cash used in operating activities	228 888	-285 200
Cash flows from investing activities		
Acquisition of property, plant and equipment	-301	-
Acquisition of shares and participations	-5 270	-428 206
Proceeds from sale of shares and participations	52 438	731 353
Net cash used in investing activities	46 867	303 146
Cash flows from financing activities		
Share redemption	-288 839	-
Net cash from financing activities	-288 839	0
Net increase in cash and cash equivalents	-13 084	17 946
Cash and cash equivalents at January 1	41 041	24 359
Effect of exchange rate fluctuations on cash held	-13	-1 265
Cash and cash equivalents at the end of the period	27 943	41 041

Consolidated Key Figures *

	Jan 1 - Dec 31	
	2013	2012
Number of shares outstanding, end of period	42 805 556	56 673 177
Average number of shares outstanding	44 895 015	56 673 177
Net asset value, end of period, TSEK	412 683	1 550 613
Net Income per average number of shares outstanding, SEK	-18,17	-2,94
Net asset value per share, end of period, SEK	9,64	27,36
<i>* before and after dilution</i>		

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Company Income Statement

<i>In thousands of SEK</i>	Oct 1 - Dec 31		Jan 1 - Dec 31	
	2013	2012	2013	2012
Other income	3 600	5 041	14 400	14 401
Other external expenses	-933	-1 671	-3 838	-7 661
Employee benefit expenses	-3 852	-2 310	-11 711	-9 224
Depreciation of property, plant and equipment	0	-26	-6	-124
Other expenses	-409	-845	-4 370	-4 342
Result from operating activities	-1 594	188	-5 524	-6 950
Result from financial items				
Result from participations in Group companies	-85 418	-29 652	-775 868	-299 003
Other interest income and similar income	271	33 496	91	32 714
Interest expense and similar charges	-591	-385	-742	-936
Profit/loss before income tax	-87 333	3 647	-782 044	-274 174
Income tax expense	-	-	-	-
Profit/loss for the period	-87 333	3 647	-782 044	-274 174

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Company Balance Sheet

	Dec 31	Dec 31
<i>In thousands of SEK</i>	2013	2012
ASSETS		
Non-current assets		
Property, plant and equipment	0	6
Financial assets		
Participations in group companies	349 541	1 151 279
Other deposits	76	76
Total fixed assets	349 617	1 151 361
Current assets		
Current receivables		
Receivables from Group companies	8 640	8 160
Income tax receivables	226	26
Other receivables	4 472	288 796
Prepaid expenses and accrued income	447	974
<i>Total current receivables</i>	<i>13 785</i>	<i>297 956</i>
Cash and bank	4 643	23 672
Total current assets	18 427	321 628
TOTAL ASSETS	368 045	1 472 989
EQUITY		
<i>Restricted equity</i>		
Share capital, 42,805,556 (56,673,177) shares at 6.82 (5.15)	291 953	291 706
<i>Unrestricted equity</i>		
Share premium reserve	4 236 269	4 557 836
Retained earnings	-3 381 732	-3 107 558
Profit/loss for the period	-782 044	-274 174
TOTAL EQUITY	364 447	1 467 810
LIABILITIES		
Current liabilities		
Accounts payable	153	169
Other liabilities	412	271
Accrued expenses and prepaid income	3 033	4 739
<i>Total current liabilities</i>	<i>3 598</i>	<i>5 179</i>
TOTAL EQUITY AND LIABILITIES	368 045	1 472 989
ASSETS PLEDGED	3 477	255 410

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Note 1 Consolidated operating expenses

<i>In thousands of SEK</i>	Oct 1 - Dec 31		Jan 1 - Dec 31	
	2013	2012	2013	2012
Employee remuneration expenses	-4 148	-3 541	-12 827	-11 883
Depreciation of property, plant and equipment	-40	-76	-173	-324
Other	-1 757	-3 300	-7 255	-12 751
Management advisory agreement				
EOS AB's yearly share price development	208	584	-497	3 962
Monthly management fee	-1 027	0	-8 243	0
Preference share remuneration	-	-3 058	-	-16 669
Total	-6 764	-9 390	-28 994	-37 664

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