

## 3rd quarter 2017 report

### // Overview

- › EEII is looking back to favourable market conditions during Q3 2017. The net asset value per share (“NAV”) increased by 20% from CHF 2.92 to CHF 3.51. During the reporting period, the fair value of the equity holdings increased by 17%.
- › EEII’s main equity holdings, Gazprom, Ukrnafta and KAZ Minerals were the drivers of the recovery in the portfolio value of the company. Combined, the value of those three holdings increased by CHF 766k or 16%. Additionally, the yearly dividend payout of Gazprom helped to support the quarterly result. The investments in Ukrainian electricity companies contributed slightly to the bottom line, increasing by 22% in CHF terms but, of course, still from a very low base.
- › The CHF, EEII’s reporting currency, weakened against most major currencies, which provided some relief after a long period of headwind. The USD recovered towards parity, meanwhile the GBP gained some 4%. The Ukrainian Hryvna continued on its path of relative stability versus the CHF, which in itself is a positive development and reflects the slow recovery of Ukraine’s economy.

### // Investments

#### Portfolio Composition and News:

- › There are no changes to report in EEII’s portfolio during Q3 2017.
- › Gazprom’s results for the first six months of 2017: Improvements in the company’s business were clearly visible. Revenues gained by 4.7% (3.21 tln Rubles) and the operating profit recovered by 17% to 484 bln Rubles compared to H1 2016. Despite these encouraging signs, the underperformance vs. peers such as Lukoil and Rosneft continued.
- › Ukrnafta: the most important news regarding this large EEII holding was published in late September. Ukraine’s State Geological Service renewed nine production licenses for Ukrnafta, extending them for 20 years. The company proceeded to restart production at the suspended fields. The news led to an immediate increase of Ukrnafta’s share price of around 20%.
- › KAZ Minerals: positive news keep coming in as growth momentum is maintained in Q3 17. Copper production was up + 14% q/q. On the cost side, KAZ expects a reduction in FY 2017 of around 10%. Operations at the new flagship mine Aktogay are still providing positive momentum for the company, as higher grades and a faster than expected ramp up in production support overall results. Thanks to better cash flow in light of the sharp rebound in copper prices, KAZ continues to deleverage its balance sheet as net debt declined by USD 222m during the latest quarter.

### // Economic and political environment

- › Ukraine’s economy is still suffering from the trade blockade with the eastern regions. Additionally, poor agricultural production caused exports to decrease in the past few months. Growth is expected to decelerate further in H2, incoming data for Q3 seem to confirm the subdued sentiment. On a positive note, the country boasted a successful return to the capital markets in September, raising USD 3 billion through a 15Y Eurobond, the country’s first bond issue since 2015. The return illustrated investors’ renewed confidence in the economy; however, there is a risk that the successful issue could reduce the authorities’ resolve to comply with the IMF program. The government has been dragging its heels in pursuing mandated reforms, particularly to address corruption. While pension reform is expected to be passed, the bill has been severely watered down by amendments.
- › Russia’s economic recovery likewise accelerated during the summer months, as booming fixed investment and recovering household spending drove GDP to expand at the fastest pace since late 2012. Large infrastructure projects fueled investment growth, while low inflation and improving confidence supported private consumption. Available data for Q3 suggest, that momentum remained healthy. Industrial production accelerated and the unemployment rate inched down in August, while the manufacturing PMI rose in September. Moreover, the Ural oil price soared in September, recording the highest average monthly price since 2015.

#### › Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14

Capital structure	› 1,527,510 bearer shares
	› par value of CHF 7.10
	› Last payment to the share-holders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)

Board of directors	› Victor Gnehm (Chairman)
	› Christoph Offenhäuser

Advisory fee	Flat fee, payable quarterly
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Share identification	› Valor 716 295
	› ISIN CH0007162958

Bloomberg	EEII SW Equity
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Registered office	EEII AG
	Alpenstrasse 15
	P.O. Box 7863, 6302 Zug

CEO	› Marcus H. Bühler
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Advisor	Weissenstein & Partner AG, Zurich
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Administrator	MOORE STEPHENS ZUG AG, Zug
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Custodians	› UBS AG, Zug
	› PrivatBank, Dnipropetrovsk

Auditor	BDO Ltd, Zurich
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Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner
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› Portfolio	per share	MCHF	%
Net current assets		0.1	2%
Investments		5.8	98%
<b>Total assets</b>		<b>5.9</b>	<b>100%</b>
NAV (30/09/17)	3.51	5.4	
NAV (30/06/17)	2.92	4.5	
NAV (31/03/17)	3.33	5.1	
NAV (31/12/16)	<b>audited</b> 3.49	5.3	
NAV (30/09/16)	3.05	4.7	

› Investments (in 1,000 CHF)	at cost	fair value *)	owner-ship
Donbasenergo	456	6	0.05%
DTEK Dniproenergo	491	39	0.03%
Centrenergo	627	53	0.04%
DTEK Zakhidenergo	849	52	0.08%
Kievenergo	119	13	0.01%
Ukrnafta	6,068	1,571	0.85%
Cherkasyoblenergo	728	91	0.77%
Dniprooblenergo	255	24	0.02%
DTEK Krimenergo	245	2	0.09%
Volynoblenergo	295	29	0.44%
Zhytomyroblenergo	589	36	0.45%
Gazprom	8,143	3,022	0.00%
KAZ Minerals	288	819	0.02%
<b>Total</b>	<b>19,153</b>	<b>5,757</b>	

\*) As of December 31, 2016 (audited). The fair values of two distribution companies (Cherkasyoblenergo and Volynoblenergo) are determined by the average of market prices and three fair value models, to which a liquidity discount is applied. The fair value of all other companies are market prices.